

# Gulf Coast Business Review

# GCBR

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## COVER STORY



Ralph Desiano, a veteran of T.G.I. Friday's, was brought in to help owner Chris Karakosta overhaul Mel's operations. A priority: fast service.

Bursell Caldwell

# Speed = Success

Mel's Diner is betting that getting the food out of the kitchen quickly while adding

advantage of the menu redesign to get rid of slow-selling items, such as the turkey and veggie burgers.

With Scherger's help, Desiano created a company recipe book that cooks at every restaurant must strictly follow. They improved on existing recipes, such as adding caramelized onions and mushrooms to the meatloaf to make it

Mel's Diner is betting that getting the food out of the kitchen quickly while adding more gourmet meals will add up to 100 new restaurants in 10 years.

By JEAN GRUSS  
Editor/Lee-Collier

Chris Karakosta got scared last year. As the owner of a 10-restaurant chain of diners called Mel's Diner, Karakosta saw revenues slow dramatically in 2005. Food costs rose, high fuel prices kept customers home and the hurricanes slowed business dramatically in Collier and Lee counties.

In recent years, revenues at Bonita Springs-based Creative Restaurant Management — the chain's parent company — had been growing 10% annually. But in 2005, revenues rose just 2% to \$25 million at the diners that stretch from New Port Richey to Naples.

"We were complacent because we had been doing so well," Karakosta says.

Worried that his brand of comfort-food restaurants was fading, Karakosta hired experienced restaurant executives to revamp the business and grow the company. To lead the effort, he hired Ralph Desiano, a veteran of T.G.I. Friday's and Uno Chicago Grill chains in the northeast. He also hired Fred Scherger, a Manhattan corporate dining executive to be the director of culinary operations.

Desiano says he's confident the company can open 50 company-owned restaurants and franchise another 50 in the next ten years. The key to the chain's success, he says, is speed of service, made-from-scratch food and lower prices than the competition. The company retained franchise law firm Krass Monroe in Minneapolis and trademarked the name Mel's Gourmet Diner so it can use that name in all 50 states.

### How Mel's prepares for growth

Already, the company plans to open two new diners in Sarasota and Cape Coral in 2006 and a third in Naples in 2007. Karakosta says the company plans to enter the Tampa market in 2007 and says that city is big enough for seven to eight restaurants.

The most critical piece of Mel's strategy

is speed. To keep its prices below that of competitors such as Appleby's and T.G.I. Fridays, Mel's has to be faster so that it can serve more customers. For example, although its average check is just \$9.50 versus \$15 for competitors such as Appleby's, Desiano says his staff can serve twice as many customers because his kitchens are faster.

With Scherger's help, Desiano reorganized the kitchens so that a family of four people can eat in 30 minutes or less, which is twice as fast as the competition. The time it takes the waiter to turn in the order until the food is prepared is five minutes for breakfast, 10 minutes for lunch and 15 minutes for dinner, Desiano says.

To be faster, Desiano and Scherger restructured the kitchen so that food is prepared in three stages. At the rear of each kitchen, cooks handle preparation tasks such as breading the chicken. They then hand over the prepared food to cooks who heat it and assemble the dish. In turn, they pass it to cooks who put the finishing touches on the dish so it looks good. Previously, each restaurant had its own system that got bogged down during

the mealtime rush because its cooking process wasn't orderly.

To track how fast food gets prepared, Desiano is rolling out a sophisticated computer system called Aloha in all its restaurants that calculates how long it takes for a dish to be served from the minute that a waiter enters the order to the time the dish to get to the waiter's window. "We can attack areas where we missed the mark," says Desiano.

Aloha also tracks food costs and labor management. It can tell Mel's executives exactly how much food to order and when the busiest and slowest parts of the day are in each restaurant so that it can add or reduce staff at certain times. Mel's is spending \$150,000 to install Aloha in its existing restaurants and will add the system to new stores so that it can keep track of far-flung operations from its headquarters in Bonita Springs.

The restaurant chain also revamped its menu to attract new customers. It replaced the old menu, which featured the picture of a pizza-box chef on the front cover, with one with modern graphics that highlight top-selling burgers, grouper and baby-back ribs. Desiano also took

## Chicken goes upscale at Mel's Diner

Mel's Diner recently introduced new chicken meals that executives say will enhance traditional diner fare. Each dish costs \$9.99 except the Sanibel Chicken Salad, which costs \$8.99. They include:

- **Key Lime Chicken.** Pan-seared chicken with vegetables over steamed rice topped with an original key-lime hollandaise sauce.

- **Sanibel Chicken Salad.** Lightly seared chicken served over mixed greens with candied pecans, blue cheese, cucumber, diced red onion and mandarin orange segments

topped with honey-bacon dressing.

- **Chicago Chicken Muffaletta.**

Sautéed chicken over pasta with marinara sauce topped with a medley of kalamatta olives, roasted red peppers, red onion, bacon and Parmesan cheese.

- **Pasta Mel Fredo.** Sautéed chicken with mushrooms and tomatoes with an Alfredo sauce over pasta and topped with Parmesan cheese.

- **Three-Cheese Chicken Marinara.** Seared chicken served over pasta with a blend of three cheeses and topped with fresh tomato and parsley.

moister, and added a series of signature chicken dishes including the Sanibel Chicken Salad (see related story).

The goal, Desiano and Karakosta say, is to keep loyal customers by improving the food they're used to ordering and attracting new ones with more upscale dishes and fresher ingredients. For example, Mel's is toying with the idea of substituting Godiva chocolate for its famous pie and serving burgers on better bread such as focaccia.

"There is a group of people we're not attracting," says Desiano. This includes younger people, married couples and families. Currently, many of its customers are retirees and people over 50 and Desiano says attracting younger people is a key to sustaining the chain's growth.

The company's research says that customers are willing to pay more for food prepared with fresh ingredients and more flair, says Desiano. Already, the diner has been able to raise prices without too much fuss. The grouper basket, one of its most popular items, rose from \$8.99 to \$10.99 in the menu's latest incarnation, though it now comes with the choice of soup and salad in addition to the coleslaw.

Still, the company strives to keep prices near or below the \$10 mark. That's to keep what Karakosta sees as another fierce competitor at bay: the homemaker. "They're watching the Food Network and making better food at home," Karakosta says. He says he wants the food at Mel's Diner to be comparable in taste and affordability to the meals homemakers are cooking today.

Meanwhile, the company is working on making the interior of the diners more modern with plants, dividers between booths and wood-grain paneling. The uniforms are in for a makeover, too. "All of that is still on the drawing boards," Desiano says.

### Rolling out the brand

Desiano says the company's rebranding to Mel's Gourmet Diner will begin later this summer, once it has standardized operations at its existing restaurants. Then, it plans to open 50 company owned restaurants and sell franchises for

some experienced restaurant operators who will own multiple diners in a large geographic area. He doesn't want to sell franchises to individual operators because it would mean beefing up the back-office operations such as accounting to keep track of dozens of franchisees.

To spread the word about Mel's Diner's migration to more gourmet food, the company plans to jettison its reliance on newspaper and radio advertising. Instead, the company will spend its \$800,000 advertising budget on new uniforms,

Karakosta says.

Meanwhile, Karakosta says he wants the restaurant managers to buy into the change. He's working on a plan to give a partnership interest to managers in which they would share in the success of the restaurant, much like a similar successful program at Tampa-based Outback Steakhouse. Under his plan, Karakosta says the managers of Mel's Diner could make as much as a \$100,000 a year, up from the \$35,000 to \$40,000 they make now. "When a customer isn't happy, that's

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## COVER STORY

## Mel's goes gourmet

The meatloaf is getting a makeover.

To help him transform Mel's Diner into Mel's Gourmet Diner, owner Chris Karakosta hired Manhattan corporate dining executive Fred Scherger last summer to find a way to make comfort food upscale.

For instance, why not jazz up the boring old meatloaf with Portobello mushrooms and a demiglace sauce? It's just one of many ideas under consideration.

After scouring every comfort-food recipe book he could get his hands on, Scherger has already tweaked half the items on the 15-year-old menu. The meatloaf was one of the first targets. He added caramelized onions,

mushrooms and seasonings and he now reheats it in beef au jus so that it's moist. Previously, the meatloaf had been reheated in a microwave oven that sucked it dry.

Scherger faces a delicate balancing act revamping Mel's menu. He doesn't want to scare longtime customers away from staples such as meatloaf, but he wants to make the food more upscale in order to attract new customers.

"What we want to do is enhance everything and make it taste better," Scherger says. "We don't want to put a twist that scares customers away."

Much more than the meatloaf is at stake here. Virtually every item on the menu is on the plate for

improvement. For example, Scherger is testing new buns for hamburgers, including focaccia bread and ciabatta buns.

Scherger goes beyond the ingredients to restructure kitchen operations and reduce cooking times, a critical move if Mel's is going to remain profitable. "I work on the line with the cooks and I'll think to myself, 'how can this be more efficient?'"

Take chicken, for example. It used to take eight minutes to cook because Mel's used frozen chicken. Now, cooks use fresh chicken tenders and the cooking process takes just two minutes. Switching to fresh chicken accomplished two goals: faster cooking time and

better ingredients.

Scherger further improved cooking speed by breading the chicken during slow times of the day and blanching the tenders in advance. Then, during the busy mealtimes, the cooks finish cooking the chicken in the fryer for a minute and put the finishing touches on the dish.

"Rather than spending more time preparing things [during busy mealtimes], they're taking that extra time to make sure the plates look right and the food's fresh," Scherger says.

Besides the fried chicken, Mel's recently added "Gourmet Chicken Sensations" to its menu. One popular item: Sanibel Chicken Salad. It's lightly seared chicken served over crisp mixed greens with candied pecans, blue cheese, cucumber, diced red onion and mandarin orange segments topped with honey-bacon

dressing.

Just a few weeks after its introduction, Mel's now sells an average of 20 to 30 Sanibel salads per day at each of its 10 restaurants, which executives consider a great start. Plus, the new chicken dishes cost \$8.99 to \$9.99 each, double the price of a hamburger.

Mel's doesn't buy canned gravy anymore. Instead it creates its own gravy recipes and hires an Orlando company called Culinary Concepts to produce them in large quantities. "I do the R&D and work to come up with these exclusive creations," Scherger says.

Ultimately, Scherger says his aim is to make what sells well. "In the restaurant business there's always something new to learn," Scherger says. "We want to be the king of comfort food."

—Jean Gruss

50 more over the next ten years.

It costs about \$1.4 million to build a new restaurant, not counting the land costs. By contrast, it costs \$750,000 to retrofit an existing restaurant.

For the company owned restaurants, Karakosta says Mel's generates enough cash flow to cover the starting costs. In addition, it will sell and lease back some land under its restaurants, freeing up capital for expansion.

Meanwhile, details of the franchising operations are still under wraps. Karakosta says he prefers to sell the franchising rights to well-capitalized

china, cutlery and promotional events.

"We want to give that money back to the customer," Karakosta says. "We need to spend the money to wow the guest."

For example, it plans to hire professional artists to perform for customers and publicize the events so that it gets free media coverage. Another idea is Tossup Tuesday, in which a manager will offer a free meal to random customers if they call his coin toss correctly. Yet another idea is to convert a tour bus into a restaurant on wheels called "Mini Mel's" and give customers on the street a taste of Mel's.

"We want people talking about us,"

got to hurt him in the heart first and in the pocketbook second," Karakosta says.

In addition, Karakosta says he's working on a plan to expand benefits for all employees, including making company contributions to a 401(k) plan. Word already has started spreading and Karakosta says the quality of new job applicants has increased noticeably.

While his hired guns transform the company from a family owned operation to a national chain, Karakosta wants to keep close tabs on what his customers are thinking. He's planning to establish

a toll-free phone number for customers and employees that will ring directly at his desk. "Even though we're growing, I don't want to lose guests and staff," Karakosta says.

Karakosta admits that the expansion is stressful. The son of an Albanian immigrant, he never imagined that growing the diners from a single location in San Carlos Park in 1989 would come to such success.

"Now, at 53, I'm really scared to death," Karakosta admits. "You don't want to disappoint."



Chris Karakosta,  
Owner, Mel's Diner

Chris Karakosta plans to grow Mel's Diner more than tenfold over the next decade by selling franchises and opening company-owned stores in Florida and beyond. His strategy is built on speed.

See story on Page 8.