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Cheesesteak chain looking up during economic downturn

CHARLEY'S IS PUSHING to expand as consumers trade down to less-expensive dining options.

BY DAN EATON | BUSINESS FIRST

Charley's Grilled Subs expects to surpass 400 outlets this year, continuing to expand at a time when other dining chains are scaling back.

But where the Columbus-based purveyor of Philly-style cheesesteaks goes from here is undetermined.

"We're evaluating how we've done it, what we've done right, what we've done wrong and how to grow smartly," said Executive Vice President Joel Mirman.

Mirman joined Charley's in December after working as a consultant for the chain for more than a decade. He and Ed Randall, who started at Charley's in August as vice president of operations, are part of founder Charley Shin's new executive team hired to grow the brand. The chain has 375 outlets and pulled in an estimated $200 million in sales

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GOSH: *Quick-serve sandwich biz getting larger*

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last year, a 17 percent increase from $171 million in 2007.

Marketing Director Betsy Wright said sales growth is coming from existing shops as leads on new franchisees have dwindled in the recession and the decline of financing options.

Shin, after graduating from Ohio State University, opened the first Charley's on North High Street near campus in 1986. The chain, whose corporate name is Gosh Enterprises Inc., began franchising in 1991. Today, 10 percent of the restaurants are company-owned.

MILITARY SURGE

The company's biggest contributor is the Army & Air Force Exchange Service, which franchises 93 outlets on military bases and is expected to top 100 this year; it accounts for nearly one-quarter of the chain's locations. Wright said the Dallas-based agency, in charge of providing merchandise and services to military facilities, said Charley's is its fastest-growing, most-profitable brand.

Of the military base restaurants, 40 are outside the United States, accounting for much of the chain's international growth. Charley's is in 11 countries. A Florida-based franchisee has opened outlets in Venezuela and Panama.

"Even countries that might not be crazy about the U.S. are crazy about U.S. things," Mirman said.

Mirman said the chain's business model remains solid and appealing – sandwiches, namely cheesesteaks, grilled in front of customers. It's the top Philadelphia-variety cheesesteak chain in sales and outlets, according to Chicago-based researcher Technomic Inc.

"The limited-service sandwich segment is holding its own," said Darren Tristano, Technomic executive vice president. "Its resilience comes from its ability to provide customers with a range of offerings from low cost to high end."

Technomic's 2008 analysis of the limited-service sandwich industry, including Charley's, put the segment's combined annual sales at $21.2 billion with the top 100 accounting for $18.8 billion. Sales at top chains grew 6.4 percent and store growth rose 1.8 percent to 38,790 outlets.

Subway, owned by Milford, Conn.-based Doctor's Associates Inc., topped the list at $8 billion in annual revenue, followed by Arby's, owned by Atlanta-based Wendy's/Arby's Group Inc., at $3.3 billion, and Quiznos Subs, owned by Denver-based Quiznos Master LLC at $1.9 billion.

Charley's ranked 13th with $200 million in annual sales, while Columbus-based Escape Enterprises Ltd., owner of the Steak Escape chain, was 23rd with $69 million.

Since most Charley's outlets are in food courts, startup costs are lower, making them more appealing to franchisees, Randall said.

Malls and airports, which account for 65 percent of Charley's locations, still offer growth opportunities, Mirman said, but the company is searching for a formula for strip centers, which account for 10 percent of the chain.

"We have a history in food courts, we know what works, but strip centers have been different," he said. "Malls have a captive audience, but with strip centers it's more of a destination. We have to get the customers there."

Mirman said Charley's will look to expand in California and Florida, but wouldn't turn down opportunities elsewhere.

CUTTING EXPENSES

The economy isn't stunting growth. Charley's expects 50 openings this year, in line with previous years' growth. But the chain continues to look for ways to cut costs. Mirman said Charley's is renegotiating leases where it can.

"It's very tough times for the malls," he said. "Some (mall operators) recognize it's better to have a successful tenant at less rent than an empty space."

The chain has found other cost-savings benefits by switching ingredients, using napkins without logos and installing dispensers to control napkins grabbed by customers. At the corporate office, records are going digital and the field staff are outfitted with smartphones, giving them access to documents, Mirman said.

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FILE PHOTO

GOSH ENTERPRISES INC.

Business: Franchisors of the Charley's Grilled Subs chain.
Based: Columbus
Employees: 5,000
Area employees: 50
Shops: 375
2008 revenue: $200 million
Web site: charleysgrilledsubs.com

C. Shin: CEO

J. Mirman: Executive VP

E. Randall: VP of operations

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