



Published on *FSR magazine* (<http://www.fsrmagazine.com>)

[Home](#) > Houlihan's Emerges from Recession More Profitable

INDUSTRY HEADLINES // NOVEMBER 12, 2014

Acclimating to life after the recession has been a bumpy ride for many brands.

Bravo Brio Restaurant Group reported a third-quarter sales decline of 5.8 percent this week, while Famous Dave's third-quarter sales declined a similar 5.7 percent. Both companies announced plans to limit discounting strategies put in place at the tail end of the recession to lure in stingy diners.

Some restaurants took the recession as a time to re-evaluate their strategies and profitability. Houlihan's, at 77-unit full serve with locations in the Midwest, Northeast, and Southeast, emerged from the recession a stronger, more profitable brand, updating its prototype and menu to address how consumers' needs have changed over the last decade.

Like many restaurants, Houlihan's ceased new development once the economic slowdown hit in the late 2000s. While it had been growing at a clip of 10-20 percent unit growth per year, the company finished out the handful of projects it had in progress in 2008, and then entered a two-to three-year period during which no new units opened.

"We probably had 15 development projects in progress, and virtually all of those shut down," says Rob Ellis, CFO and chief development officer for Houlihan's. "When we came back to think about growing again, we looked at the models and assumptions we'd been using, and realized there'd be a better way to deliver service to our guests, lower investment costs, and raise returns."

New Prototype, Higher Returns

In 2011, the company began to build a new prototype, of which there are now four open. The prototype shaved off 1,400 square feet from the old model, unveiling a 5,600-square-foot space with a larger patio that nixed the two-level dining room in favor of a one-story design with a better seating mix. The investment cost dropped by roughly half a million dollars.

In the back of the house, the restaurant eliminated a back prep cook area, moving all preparation and cooking to the front line, allowing the company to save on square footage and equipment. It also streamlined procedures for the restaurant, which prepares everything from

scratch.

"We've been going through a multi-year process of evaluating recipes, prep, and final menu items to simplify it and still provide the guest with a varied menu, which is a key component of our brand," Ellis says.

The new prototypes have generated similar peak sales volumes as the 7,000-square-foot models, which average an AUV of just under \$3 million. Volumes at new prototypes are running 15 percent ahead of the old models, Ellis says.

At one of the prototypes, located across the street from a former Houlihan's, in fact, sales volumes are up 25 percent and profitability has increased almost 50 percent.

The growth in profitability comes through more effective staffing, lower controllable expenses for utilities, and lower costs of operating the building, Ellis says.

"If you think about the restaurant business, it's 14 shifts a week at lunch and dinner, but we keep our buildings open and available for guests from 11 a.m. until 11 p.m., midnight, or even 1 a.m.," he explains. "We can save on the amount of labor, energy, and other costs during those periods when we're not at peak demand."

Greater Focus on Bar Sales

The expanded patio of new prototypes has driven up the liquor mix at Houlihan's—which typically ranges in the low- to mid-20 percent—to nearly 30 percent.

"The bar element is even more attractive than our prior prototypes, so people are able to use the bar for dining, come in and enjoy happy hour, or just grab an appetizer and a drink," Ellis says. "And the patio space is much more inviting and larger in the new prototypes, so we've shifted our liquor mix higher, which we wanted to do; I don't think we want to go higher than where we're at, but that's provided a nice benefit."

It's also indicative of Houlihan's responding to consumers' desires and how they've changed over the past seven years. Whereas craft beer was just on the rise when the recession hit, now that trend has hit ubiquity and given way to craft cocktails and a greater alcohol emphasis overall.

Post-recession, Houlihan's is opening four to eight stores per year, a mix between corporate- and franchise-operated. The company will begin shopping its story of updated prototypes and stronger sales in 2015 to generate new franchise interest, having spent this year building the marketing materials around it.

From the new menu to smaller prototype, Houlihan's is simply keeping up with an industry that forces continual adaptation toward guest preference, Ellis says.

"The way people want to use a casual-dining experience changes over time," he says. "There's an

element of a continual adaptation that restaurant companies need to go through. The recession just caused us to have the need and time to think more deeply and make broader changes that we felt would target where the guest is today, rather than where they were 10 years ago."

By Sonya Chudgar

Source URL: <http://www.fsrmagazine.com/finance/houlihans-emerges-recession-more-profitable>

Copyright © 2014 Journalistic Inc. All rights reserved. FSR is a trademark of Journalistic, Inc. Please read our [Privacy Policy](#) before submitting data on this web site. Submission of data is acknowledgement of acceptance of our [Privacy Policy](#).