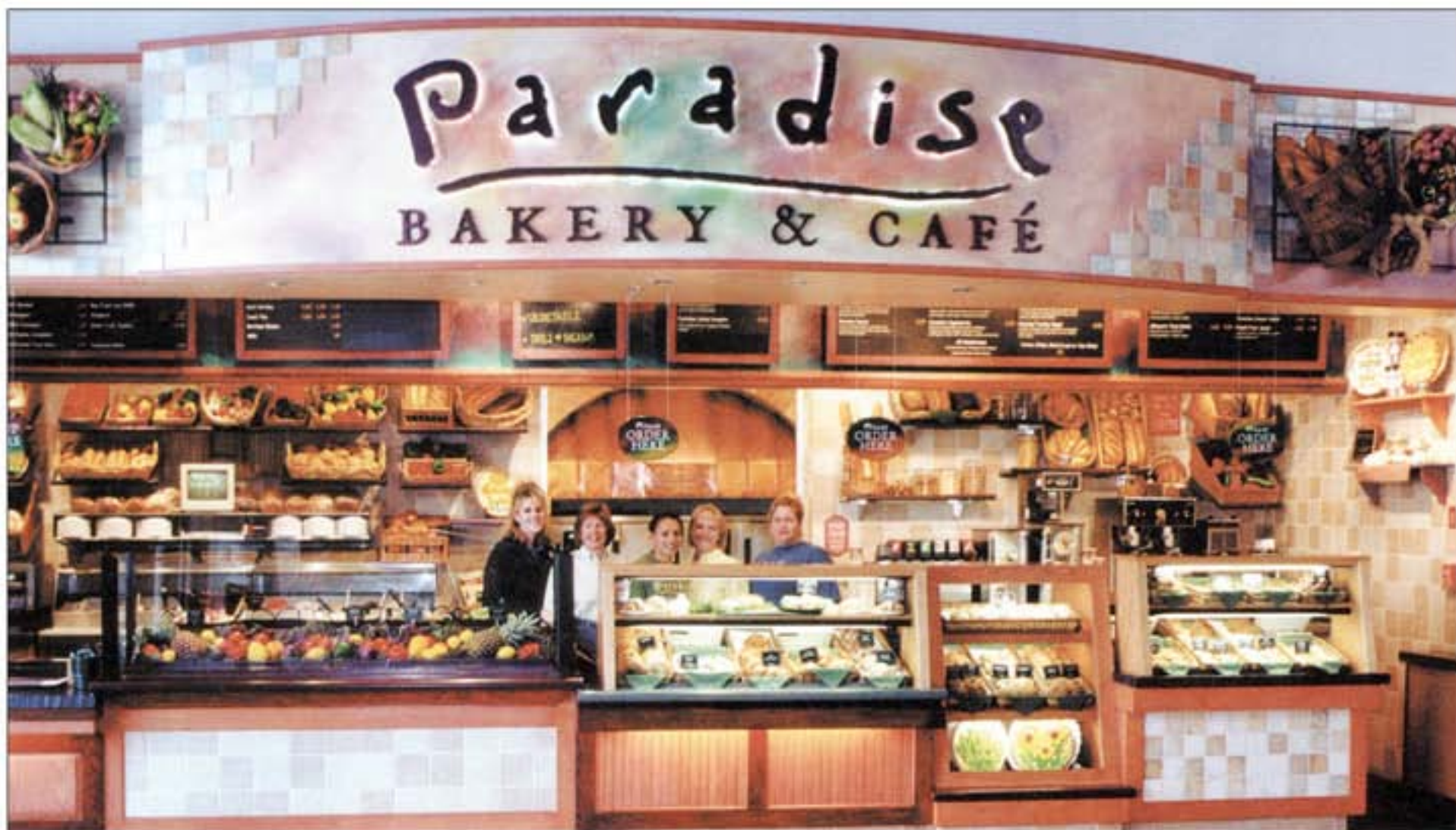


Regional Powerhouse Chains

Paradise Bakery and Café

Patient expansion yields sweet results for Western chain, which is eyeing new units on East Coast



Paradise Bakery and Café features cookies but also has added sandwiches, soups and salads, along with such trendy items as croissants, during its more than 25 years in business.

By Nora Caley

After 25 years in business, Paradise Bakery and Café decided it was time to expand, so it added 11 units in 2001, for a total of 37 stores.

"Over the years we conservatively grew the company," says founder Dan Patterson. It's not

that the Aspen, Colo.-based company didn't want to expand, he explains, just that Patterson and his partners watched competitors grow quickly and then shutter.

"We watched Mrs. Fields grow really fast," he says, adding, "It wasn't all positive when we watched the bigger concepts grow."

According to Baking Buyer's 2001 Retail Bakery Operations Survey, retail bakers last year ranked among their primary concerns "surviving" as the No. 1 issue. Bakers are more concerned about maintaining profits and market position than about labor costs and employee issues.

Paradise has succeeded in surviving. Now it wants to compete with category giant Panera, the St. Louis-based chain that has more than 330 bakery cafes in 30 states.

Panera's founder, Ken Rosenthal, is now a Panera franchisee — he sold Panera to Au Bon Pain in 1993 — in Columbus, Cincinnati, Dayton and Denver. Panera grew to its size after only six years.

But the two chains differ in other ways. Panera uses a commissary system of 10 fresh dough facilities that mix and form loaves before sending them to the bakery-cafes. Paradise says it does not use a commissary.

And while Panera markets itself as a fresh bread bakery, Paradise points to its cookies. Patterson talks about Mrs. Fields and Famous Amos. "What we learned is you can't just sign up a bunch of locations," says Patterson, who adds that real-estate companies have offered Paradise some former Mrs. Fields locations.

He also learned that Paradise could not survive solely on the sale of cookies. Early on, the chain added breakfast muffins and croissants to its menu.

In addition, Paradise offers sandwiches, soups and salads. Over the years the chain has added menu items if they proved to be popular: croissants in the 1970s, wraps in the 1990s, gourmet pizza last year in the newest store in Scottsdale, Ariz.

"I see no reason why over the next five years we can't

grow into several hundred units," Patterson says. "Our presentation is similar to Corner Bakery but with a lot more appealing presentation to it," he claims. "We have a very alive, very market look. And when you look at Panera opening I-don't-know-how-many stores now, there's no reason Paradise can't do the same."

In the early 1970s Patterson needed to change careers. He had played volleyball in the 1968 and 1972 Olympics. When his sports career ended, he joined Chart House and worked his way up the management ranks. Eventually, he left Chart House, and in 1976 he and his brother Mark joined Carter Holmes and Bob Duggan to start Paradise Bakery and Café in Long Beach, Calif. Today Mark Patterson and Holmes are executive vice presidents. Duggan is no longer with the company.

The chain's strategy was to position the bakeries as mom-and-pop stores. Although 30 of the 37 units are corporate-owned and have access to more capital than most family-owned bakeries do, the idea was to market by word of mouth.

The bakeries use in-store "marketing-within-the-four-walls" tactics. Instead of spending money on advertising,

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Paradise tries to enhance the experience of the current customer. The chain's outlets offer samples of freshly baked goods and offer two-for-one cookies and muffins late in the day. And they occasionally offer tins of cookies or gift certificates — not large cash donations — to local 10K races and other fund-raisers.

"In our business, because we're not that high ticket, you want word of mouth," Patterson explains. The strategy is to get more customers to visit. That might be easier than getting current customers to spend more than \$4 on cookies and coffee. We have something very simple: Your experience at Paradise is so special from the service and food that you'll tell someone. 'You've got to go to Paradise.'"

Most of the Paradise units are located in malls in the corner units of food courts. Others are street level shops, while a few are in office building lobbies. The target audience is business people out for a quick eat-in or takeout lunch, and shoppers who need a cookie to help them keep going.

David Birzon, Paradise's director of operations, says 70 percent of customers are female, most of the corporate stores' general managers are women and most of the high-school-age hourly employees are female. "It's a real feminine environment," he says. "We ask employees to provide great service, and some high school boys are embarrassed to say, 'Hi, welcome to Paradise, may I offer you a sample today?'"

The average ticket is \$5 per person in the chain's mall food-court locations and \$8 per person at street locations. As the chain expands, it expects to start looking at other locations besides shopping centers. "We are limited as long as we stick to malls," Birzon says.

It wasn't just a desire to grow conservatively that slowed the company's expansion over the years. The company endured ownership upheavals in the 1980s and 1990s. Patterson and his three partners sold the 15-unit Paradise chain to Chart House in 1987. He ran Paradise for Chart House for two years. In 1989 he left Chart House, and he and his partners purchased the rights to franchise Paradise in Phoenix, Northern California, Dallas and Denver. But in 1997 Chart House sold Paradise to Sacramento, Calif.-based Java Centrale. Java filed for bankruptcy reorganization in 1998. The original partners bought all of Paradise back out of bankruptcy in 1998.

"So the complete circle took place, and we own Paradise, the company we started, 100 percent," Patterson says. Today per-unit sales range from \$600,000 to \$3.3 million per unit. Corporate revenues for 2001 totaled \$33 million.

Jerry McVety, whose McVety and Associates foodservice consultancy in Farmington Hills, Mich., does not work with Paradise, says 25 years is not too long before making a big expansion push. "If they've been around that many years, we'd equate it to Krispy Kreme," McVety says. "They were around for many years, and all of a sudden they're having an explosion. After 25 years they definitely have their act together. They have a proven product, a concept that doesn't have to be tested or tried."

McVety says it's normal for a smaller chain to look to Panera for comparison. "A lot of other bakeries are

looking at Panera. They say, 'Hey, we have the same concept and fundamentally the same products. They're doing well. Why can't we do well?'"

He adds that, as with other concepts, bakery chains must stick with their core product. They should not make major changes to the menu, except for occasional modifications to a recipe, perhaps to accommodate regional preferences. They don't need to experiment with upscale pastries or mocha decaf iced lattes.

Patterson acknowledges that Paradise tried a few losing ideas. Like Starbucks in its early years, Paradise abandoned the idea of emulating an Italian cafe. "I tried the stand-up counters," Patterson says. "No one knew what to do with them. They didn't get what they were." And three years ago Paradise bought back two stores from a franchisee. One store is in an antiquated shopping mall south of Denver. The other is in a busy area of downtown Denver, but Patterson says that store is not representative of the colorful mall stores in the new, upscale "retail resorts" built in recent years. That downtown Denver store is scheduled for a major remodeling, including an expansion into part of the neighboring Gap store space.

Today the Paradise Café bakeries are located in Colorado, Arizona, California, Oregon, Texas, Oklahoma, Washington and Florida. Patterson moved corporate headquarters to Aspen a few years ago, fulfilling his personal goal: to live in the celebrity-filled ski town. The chain's operating headquarters are in Phoenix. The plan is to stop expanding during the recession and to add units again after midyear. New markets will include Chicago and Las Vegas.

Consultant McVety thinks the economy won't do much harm to concepts like Paradise. Even with layoffs and stock-price plunges, consumers with a sweet tooth will always show up. Moreover, Paradise offers low-price sweet snacks.

"They're not expensive high-end tortes and cheesecakes," McVety points out. "In my opinion the American public is all about hand-to-mouth kinds of food. We love to have something in our hand we can put in our mouth."



Most Paradise locations are either in malls, such as this one at Scottsdale Fashion Square in Arizona, or at the corner of food courts. The target audience is business people out for a quick lunch or shoppers with a sweet tooth.

Company and chain name

Paradise Bakery and Café

Headquarters

Phoenix

Year founded

1976

Market segment

bakery-café

Units

37; company-owned, 30; franchised, 7

Annual sales

\$33 million (2001)

Average annual sales per unit

\$890,000

States of operation

Colorado, Arizona, California, Oregon, Texas, Oklahoma, Washington and Florida

New-market targets

Las Vegas, Chicago, East Coast

Top executives

Dan Patterson, president, chief executive and founder; Mark Patterson, executive vice president; Carter Holmes, executive vice president; David Birzon, director of operations; Laurie Danks, chief financial officer

Target demographic

office workers, shopping mall customers, tourists; midscale to upscale patrons

Per-person check average

\$5 at mall locations, \$8 at street locations

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