

case study

China Coast: A case on multi-unit restaurant feasibility

By Sybil S. Yang

Introduction

Darden Restaurants got its start in 1968 with the opening of a Red Lobster restaurant in Lakeland, Florida by William B. Darden. Within two years, Darden expanded the concept to six locations and subsequently sold the nascent yet successful and thriving chain to the multinational food company, General Mills, Inc¹. With the financial strength of General Mills, Red Lobster grew to over 250 units during the 1970s. Then in the mid-1980s, General Mills solidified itself as a multi-unit restaurant operator with the successful launch and expansion of its first internally-developed casual dining concept, the Italian-themed Olive Garden. The 1980s was a period of strong unit and same store sales growth for both Red Lobster and The Olive Garden. Riding on the success of Olive Garden's strong consumer acceptance, and under the pressure of shareholder demands to expand its concept portfolio, General Mills launched its entry into the full-service Chinese restaurant market with the development of China Coast.

By 1994 Red Lobster, The Olive Garden, and China Coast had grown to a combined 1,158 owned and operated restaurants, generating over \$2.9 billion in annual revenues (about 34% of all General Mills' total revenue in 1994). By then, it was clear the restaurants had become more than just a casual subsidiary of the consumer food giant. So by early 1995, in an effort to increase shareholder value and capitalize on the restaurant division's rapid growth, General Mills announced that it would spin off the restaurant division in an initial public offering (IPO) under the name Darden Restaurants, Inc. Ahead of the IPO, and to help prepare Darden's sales growth story for potential investors, General Mills planned an aggressive expansion of China Coast restaurants from 25 units in 1994 to 51 units in 1995. However, after nearly five years of operation and refinement, China Coast was proving to be a complex operation with mixed reviews from consumers and Wall Street analysts alike. Management was betting that it could turn full-service Chinese cuisine into a multi-unit ethnic concept cash cow in the same way it was able to operationalize Italian cuisine as Olive Garden; but China Coast was taking longer to develop, and operational issues kept coming up. Could China Coast be the next Olive Garden for Darden, was its service concept doomed for failure from the start?

¹ As of 2019, General Mills is best known as the food products conglomerate that owns such brands as Cheerios, Häagen-Dazs, Yoplait, Pillsbury, Betty Crocker, and Gold Medal.

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Chinese Restaurants in the United States: A brief history

Chinese food in the United States traces its roots back to Canton (Guangdong) Chinese immigrants who came to California for the gold rush of the mid-1800s. Enclaves of Chinese communities eventually evolved into Chinatowns where Americans eventually happened upon the uniquely different cuisine. In the late-1800s as Chinese communities and xenophobic tensions began to grow, federal, state and local governments passed a series of legislation halting the entry and severely limiting the employability of all Chinese in the United States. Xenophobia was such that many Chinese could not find employment outside of their communities and thus turned to entrepreneurship, typically opening restaurants or laundries that could employ their entire family. By the turn of the century, with increasing anti-Chinese sentiment and legislation on the west coast and the expansion of the transcontinental railroad, Chinese communities migrated eastward, taking with them the shared knowledge and experience of opening and operating Chinese restaurants. The gradual spread of family owned and operated Chinese restaurants across the United States laid the foundation for a cuisine that would be widely available, surprisingly consistent in menu and operation, yet highly fragmented in ownership.

Fast-forward to the late 1980s, where Chinese food was identified by the National Restaurant Association as the most popular and most frequently consumed "ethnic" cuisine in the United States. The cuisine was more recognizable and popular than Italian, Mexican or Tex-Mex cuisines, all of which had already been proliferated across the country by multi-unit restaurant concepts such as The Olive Garden, Roman's Macaroni Grill, The Old Spaghetti Factory and Carino's (Italian); and El Torito, ChiChi's, Acapulco Mexican Restaurant and Cantina, and Chevy's (Mexican and Tex-Mex). By the early 1990s, the highly-fragmented full-service Chinese restaurant market was identified to be a \$6.4 billion segment still puzzlingly ripe for consolidation. Given the size and popularity of the Chinese restaurant market, many industry veterans have long eyed the cuisine for chain expansion and consolidation, though no company had yet pursued the opportunity with a full-service, casual dining concept. Arguably the most well-known and successful attempt at consolidating the segment at the time was the four-unit Southern California chain, Panda Inn. Founded in 1973, Panda Inn grew to just four locations before branching off and focusing on the quick service segment with its Panda Express concept.

Chinese & Restaurant Operations

Chinese cuisine dates back to over 5000 B.C., and its cooking methods have (literally) evolved over millennia. The cuisine itself consists of several dozens of regional variations², but its fundamental characteristics are rooted in thrifty and conservative practices. Everyday Chinese food is composed of modest ingredients. Rarely were meat or seafood cooked or served whole since expensive ingredients were conserved by cutting into small pieces as to be used sparingly, to more easily flavor a larger dish, or to facilitate sharing so that everyone eating got a little bit of a precious ingredient. Larger, whole cuts of meat and seafood were only served on special occasions. Rice, noodles, and starches were the foundation of a meal, and were served communal-style with several side-dishes of vegetables and stir-frys. Lack of refrigeration meant that any ingredient that was not cooked immediately would be preserved for future use, and virtually nothing was eaten raw. Very little waste was allowed and as such, Chinese cuisine requires many highly specialized, preserved ingredients that have been fermented, salted or dehydrated. As an example of how these factors might exist in a traditional Chinese dish, consider that a simple vegetable sauté might require fermented oyster, soy, and fish sauces, a pickled mustard green, and a bare minimum of finely minced pork and dried shrimp. These types of specialized ingredients were not widely available through traditional food service distributors, rather were typically only accessible in consistent quantity through specialized purveyors.

While the ingredients used in the cuisine were modest, the food preparation methods were generally time consuming and potentially elaborate. Traditional culture and lifestyles allowed for plenty of labor and patience in preparing ingredients for cooking. The smaller size of prepared cooking ingredients necessitated specialized preparation and cooking methods. For example, preparing small uniform pieces of ingredients requires greater knife skills; and smaller pieces of food have greater surface area, necessitating deft cooking skills.

The intricacies of food preparation primarily stem from the art of wok cookery, a 3,000 year-old cooking method. The wok is a large, ultra-thin, shallow carbon steel metal 'bowl' that sits on a high-BTU gas burner, which is in turn surrounded by a water cooling/waste trough system.³ Operating a wok station is much different than that of any other Western restaurant kitchen station. First and foremost, a single wok station is expected to execute on many cooking techniques (for example: fry, sauté, poaching/boiling/blanching, and sauce making). This lack of technique specialization is very different from Western-style

brigade-system kitchens where stations are generally technique-specific. For example, a Western kitchen would likely have separate fry, sauté, pasta, and saucier stations. In a Chinese kitchen, a single wok station is expected to be able to execute on all those techniques. Second, wok cookery is extremely fast and requires movements that are markedly different than those used in Western cooking. The combination of thin, highly heat-conductive woks, high-BTU burners, and the small size of prepared cooking ingredients results in food that is cooked (and that can be burned) extremely quickly. As a result, wok cookery requires the use of both hands to continually toss, stir, sieve and season ingredients over high heat. Wok cookery is so fast and finessed that it is normal for chefs to adjust the burner flame intensity with their knees as both their hands are occupied with the wok and a spatula.

Service and dining styles for traditional full-service Chinese meals are based in communal practices. Dishes are shared amongst everyone at the table and there are no separate, plated portions for each guest. This single difference in dining style has implications that are evident in several aspects of operations. First, the pace of a meal does not depend on formal courses (such as an appetizer course and then an entrée course), where guest plates are served and cleared en masse. Instead, family-style, shared entrées for the table would be served a la minute, one after the other, once ready from the kitchen. Second, the typical timing signals used for firing, serving and clearing courses of a Western service-style meal are unfamiliar to the traditional Chinese dining style. Because dishes are dropped and cleared from the table on a progressive, as-needed basis, front of house staff are typically assigned to sections, not individual tables. An entire team is responsible for the service in an area and no one server is assigned to a single table. It is not uncommon to have different servers walking to and from different tables with just one plate of food at a time, making frequent trips between the kitchen and dining room. Lastly, because all food on the table is meant to be shared by everyone, most Chinese restaurants have round tables, or drop-leaf tables that convert between a four-top square to a six- or eight-top round. These larger table sizes are also designed to accommodate larger party sizes as traditionally, guests find it preferable to dine out for Chinese food as a larger group rather than as an intimate meal. A happy byproduct of large party sizes was also the ability for the group to order a wider variety of dishes that could now reasonably be finished, making for a more stimulating and interesting meal.

China Coast

The first China Coast opened in 1990 in close proximity to Disneyworld on International Boulevard in Orlando, Florida. The location was a General Mills restaurant testing location that formerly housed York's, the food conglomerate's failed steakhouse concept. The location's easy access to a tourist cross-section of America was no accident as China Coast needed to be tested against the tastes and sensibilities of a wide and diverse target market. As a full-service casual dining Chinese res-

² Guangdong (Cantonese), Sichuan, Hunan, Shandong, Jiangsu, Fujian, Zhejiang, and Anhui. The most prevalent regional cuisines found outside of China are italicized in descending order.

³ Woks made for commercial kitchens vary in size from 360mm up to 910mm (14-36 inches) in diameter and about 3mm thick. For comparison, sauté pans used in most commercial kitchens for Western cuisines are 12-14 inches in diameter, made of aluminum or stainless-steel clad copper, and about 9mm thick. An average commercial wok station fires at 75,000 to 116,000 BTUs of gas, compared to the average Western commercial kitchen stove at 15,000 BTUs (typically maxing out at 20,000 BTUs). For reference, the average domestic stove cooks at 7,000 BTUs of gas and commercial gas ovens fire at 30,000 BTUs.

Table 1**China Coast Operating Metrics Compared to Other Darden Concepts**

	Red Lobster	Olive Garden	China Coast
Property, Plant & Equipment			
Development Cost/Unit	\$2,155,000	\$2,469,000	\$2,350,000
Average SqFt/ Unit	7,200	7,678	7,500
Largest Sqft/Unit	9,000	9,100	9,000
Average Number of Seats	198	250	240
Financial Measures			
Average Annual Sales / Store	\$2,900,000	\$2,600,000	\$2,200,000
Average Check (pp)	\$ 13.50	\$ 10.50	\$ 9.75
Food % of Sales	100%	100%	100%
Beverage % of Sales	7%	8%	0%

restaurant, the concept aimed to provide familiar and recognizable food, an 'ethnic' experience, and Western-style hospitality, all delivered at a reasonable price. TV ads for the concept mirrored these ideals, pitching the tag line, "Bring your appetite for adventure!"⁴

The restaurant was designed to convey "the ambience of the Orient" with a turquoise pagoda tiled roof, sliding silk wall screens, and traditional landscaping. The interior was decorated with Japanese paper lanterns, Polynesian chairs and authentic Chinese artifacts in the dining room. The initial floorplan featured an open-kitchen dim sum appetizer station, designed to service and entertain guests at the bar. However, alcoholic beverage sales of the California wine and Asian beer selections were disappointing, and the bar space was eventually reclaimed to expand the dining room seating capacity in subsequent floor plans. Table 1 highlights some key facility and financial measures for the concept.

The China Coast menu was engineered by the concept's executive chef Terry Cheng, an American-born Chinese biologist-turned-chef. Chef Cheng's research for the menu started by pulling from mom-and-pop Chinese restaurant favorites that would be familiar and feel 'authentic' to an American audience. Said Cheng,

"The biggest problem we were facing was people's perceptions. Chinese people talk about authentic Chinese food and they're talking about chicken feet, jellyfish and bird's nest soup. Our customers talk about authentic Chinese food and they're talking about egg rolls and sweet-and-sour chicken." (Springen, 1992).

Table 2 lists key items from China Coast's opening menu. The initial menu was a highly edited selection of items drawn from traditional mom-and-pop outlets, but was still packed with recognizable Americanized favorites from many regional Chinese cuisines. A \$5 lunch

⁴ [augustv123]. (2017, June 25). *Early 90s Commercial for China Coast Restaurant* [Video File]. Retrieved from https://youtu.be/NEY_Y8Afr4.

buffet was offered daily from 11AM to 2PM, and an a la carte dinner was served from 2-11PM with twelve appetizer, three soup, 44 entrée and four dessert options. Entrées were priced between \$7 and \$11 and included the choice of either a side of white or fried rice.

China Coast also utilized Darden's highly structured training program to open new restaurant locations. The opening process utilized design, construction, training and mentorship teams formed of other Darden-concept restaurant operations veterans experienced in Red Lobster and Olive Garden management and operations. For the typical restaurant opening, training teams generally began on-site training one week prior to opening. Opening teams are phased out when management deemed appropriate, generally remaining on site for just the first week of live operations. China Coast Director of Marketing Chuck Chatham acknowledged the unique challenges that a Chinese food concept presented, but did not seem worried, "Wok-style cooking is difficult, but it can be mastered and taught to others."

Centralized Operating Functions

To aid in the rapid expansion of Red Lobster and Olive Garden, General Mills had developed several corporate-level economies of scale that benefited each of the two brands. For example, many of the key functions of the food supply chain; back office functions such as human resources, accounting, information systems and real estate development functions such as feasibility planning, property and equipment purchasing and construction, were all structured and executed and/or monitored through Corporate.

A prime example of how the restaurant group centralized key operations was the development of the Quality Assurance Department (QAD). The QAD was responsible for sourcing and distributing seafood and other perishable goods from over 2,000 vendors in 30 countries.

Table 2

Selected Items from the Initial China Coast Menu

Appetizers (12 Total)

Cantonese Wonton
Chinese Pot Stickers
Egg Roll
Shanghi Dumplings
Szechuan Chicken Wings
Teriyaki Skewers

Soup (3 Total)

Egg Drop Soup for two
Hot and Sour Soup

Dessert

Great Wall of Chocolate Cake
Chinese Silk Pie

Entrées (44 Total)

Moo Goo Gai Pan
Pepper Steak
Sizzling Seafood Wok Bar
Pork Lo Mein
Spicy Shrimp with Cashews
Spicy Chicken with Cashews
Kung Pao Pork
Hunan Triple Crown
Sweet and Sour Shrimp
Dragon and Phoenix
Almond Gai Ding
Mu Shu Chicken
Shainghai Ginger Shrimp
~~New York Strip Steak~~
~~Fried Chicken Breast~~
~~Fried Shrimp~~

Note – Items shown in strike-through were subsequently removed from the menu after performing poorly after roll-out.

Centralization enabled tight control over the supply chain and ensured consistently reliable, high volume, high quality, standardized ingredients for regular and promotional menu items across over a thousand restaurants. The ability to safely and reliably source large volumes of highly perishable, quality ingredients such as lobster and fresh fish was considered a feat unparalleled by any other casual dining company. Janice Meyer, a Wall Street analyst, specifically referenced the centralized supply chain as a key competitive advantage for Darden:

The purchasing company would take many years and millions of dollars to replicate. Relationships with suppliers help ensure supply and keep the company closer to the business, allowing it to move quickly as trends change... This can mean the difference between securing a supply of product for your customers or not. [Relationships with processors] allows for faster and fresher delivery of product to the restaurants. This translates into both higher customer satisfaction and some extra shelf life for the fresh product. (Meyer, 1995)

Centralized back office functions also allowed the restaurant group to develop and deploy proprietary information systems to better streamline store-level operations. For example, the company used an internally developed point of sale (POS) system that included a

cutting-edge meal pacing⁵ and order management application. The functionality and data collection capabilities of the POS system were revolutionary at the time. Front line employees used the system to effectively enter and fire order tickets; managers could view sales and performance data to better plan labor schedules and supply orders; and corporate executives could analyze menu and unit performance to better understand and develop strategic initiatives. Part of the information system was even a web-based product ordering and inventory application for use by both restaurant-level management and suppliers.

On the real estate front, the company used its experience in designing and constructing over a thousand Red Lobster and Olive Garden locations to negotiate economies of scale with equipment vendors, speed facility engineering and architectural design processes, and streamline construction. For example, operations that share similar food preparation methods, service styles and dining styles can utilize very similar front of house floor plans and kitchen layout models, equipment vendors and general contractors.

A centralized human resources (HR) department also allowed for the efficient and effective use of recruiting, hiring, and performance evaluation systems across the company. For example, a centralized recruiting and application system not only minimized the duplication

⁵ Meal pacing refers to operations management of each table's dining process. An automated meal pacing system automatically signals the kitchen (back of house) when each course should be fired (started) to minimize wait times between courses. The overall objective of such a system is to decrease dine time per table, thereby increasing table turns and the number of guests that can be served.

of resources and effort associated with soliciting and reviewing applications, but it also helped to create a more predictable and consistent pool of employees. At the core of a well-functioning restaurant operation is a strong employee management system where front and back of house employees communicate and work well with each other and feel as if they are enabled with the skills, knowledge and resources to perform their jobs well. Though most HR functions were centralized, training programs were developed and maintained on the concept-level as each concept had specific service and food preparation specialties:

Each concept's vice president or director of training, together with senior operations executives, is responsible for developing and maintaining that concept's operational training programs. These efforts include a 12-to-15-week training program for management trainees, and continuing development programs for managers, supervisors and directors. The emphasis of the training and development programs vary by restaurant concept but include improvement of leadership, restaurant business management and culinary skills. (Darden Restaurants, Inc., 1996)

General Mills and potential investors expected that each new concept in the Darden portfolio would be able to tap into the same centralized services, and take advantage of the economies of scale and operational efficiencies that were created under Red Lobster and The Olive Garden. Much of the long-term strategic advantage of Red Lobster and The Olive Garden stemmed from the operating efficiencies and consistencies created by pooling and addressing the needs of over a thousand restaurant units.

The Road Ahead for Darden

In the summer of 1995, Darden was at a crossroads. The company had just become a publicly traded company and its strategic plans and long-term vision were at the scrutiny of Wall Street analysts and the investing public. Many large investment banking firms were hesitant to place a 'Buy' rating on Darden stock, citing the need for a compelling growth story based on the roll out of a third, fourth and even fifth block-buster concept that could be expanded in same manner as Red Lobster and Olive Garden were. Darden management was under pressure to expand and deliver unit and same store sales growth, and Wall Street was unsure whether Darden could make China Coast a viable third pillar of the brand portfolio. As the honeymoon phase of Darden's initial public offering began to wear off, senior management needed to decide how to move forward with China Coast. The stakes were high as Darden had already invested five years and over \$100 million developing this full-service Chinese food concept. Was China Coast ready for a more aggressive roll-out, or should management continue to take a wait-and-see approach to work out operational issues? Or was full-service, multi-unit, authentic Chinese food simply unfeasible, and Darden should cut its losses on China Coast and find another vehicle for growth?

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