



BRIEF CASES

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Porcini's Pronto: "Great Italian cuisine without the wait!"

In January 2011 Tom Alessio, marketing vice president at Porcini's, Inc., of Boston, was pondering issues raised by a potential expansion of his company's restaurant business. The domestic market for full-service chain restaurants was nearing its saturation point at both in-city and shopping mall locations. The big chains were looking overseas for growth, but as a small regional player, Porcini's had neither the resources nor brand power to pursue that option. It needed a domestic avenue for growth.

Alessio had persuaded Porcini's senior executives to consider opening limited-menu outlets, Porcini's "Pronto," to serve interstate highway travelers. Most competitors serving this market were fast-food or low-end outlets. Alessio believed that Pronto could offer a quality difference that travelers would value, but the challenges were substantial. Could Pronto's profitably provide a limited selection of Porcini's standard menu at moderate prices without jeopardizing the company's reputation for excellent food? Could it maintain Porcini's famously high service standards? Could it profitably break into a market occupied by established competitors?

Food and service quality were only two aspects of the challenge. Porcini's—a slow-growing, privately held enterprise—would need to roll out its new restaurants quickly in order to establish itself as a powerful brand. With limited capital and access to prime real estate sites, however, that seemed unlikely *unless* it adopted either a franchising or a syndication model of ownership. The first risked the company's quality reputation; the second might produce a pace of growth that the company was ill-equipped to handle.

Working with VP of Operations Kurt Jensen, HR director Wanda Halloran, and Chief Chef Mariana Molise, Alessio had sketched out tactics for facilitating Pronto's quality goals. These included an innovative process for selecting, appraising, and rewarding employees, and the use of wireless technology to eliminate time from customer billing. Meanwhile, Chef Molise had begun formulating menu items for "great Italian cuisine without the wait."

In Alessio's mind, all parts of the Pronto concept—service quality, food quality, pricing, branding, location, and ownership form—had to be coordinated and mutually supportive. And it had to meet or exceed the company's 6% hurdle rate. That was a big order.

HBS Professor James L. Heskett and writer Richard Luecke prepared this case solely as a basis for class discussion and not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. This case, though based on real events, is fictionalized, and any resemblance to actual persons or entities is coincidental. There are occasional references to actual companies in the narration.

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Company Background

Porcini's, Inc., had begun in 1969 as a family-owned restaurant in Boston's North End—a largely Italian-American neighborhood. Over the next two decades it opened new Porcini's restaurants in Hyannis, Massachusetts, Providence and Newport, Rhode Island, and Hartford, Connecticut. In 1989, the family (the Ventolas) sold a controlling interest in the enterprise to a group of private investors. The new management expanded to a number of downtown and shopping mall locations in the northeastern United States, competing with equivalently priced full-service restaurant chains. Except during the recession of 2008–2009, Porcini's had increased revenues and earnings every year. By year-end 2010, Porcini's, Inc., operated 23 locations, employed 954 people (many part-time), and generated \$94.3 million in revenues. Its profit margin had risen to 4% from less than 3% the year before. Even as many competitors were suffering, Porcini's was doing well.

The company's senior executives attributed Porcini's success to uniformly high-quality food and service at each location. That quality could be traced to the long experience of individual restaurant managers, supervisory personnel, and chefs, a relatively stable workforce, and to the recipes of Chef Mariana Molise, who had won the coveted James Beard award while running the kitchen at New York's Catania Grille. On joining the company in 2006, Molise applied her culinary principles to Porcini's less-pricey menu and personally trained each outlet's chef in her "flash cooking" techniques. Her signature *vitello ala Mariana* and pan-seared scallops with mushrooms had become favorites throughout the chain. "Twenty-three restaurants," one restaurant critic told readers, "and each makes almost everything from scratch, using fresh ingredients and artful presentations." And yet the average entrée cost only two or three dollars more than those of Olive Garden's, a near rival.

As management saw it, attention to quality differentiated it from Olive Garden, and from more formulaic competitors such as Unos, Bertucci's, and Buca di Beppo. Also, each Porcini's created the ambiance of a unique, family-owned restaurant—in keeping with its North End roots—unlike the "Italian theme park" atmosphere of many competitors. Customers valued the difference and made Porcini's a powerful regional brand. Table service matched the food in quality; in 2010 a prominent New England restaurant guide gave Porcini's its "Best Chain Service" award for the fourth consecutive year.

Industry Segments and Competition

The U.S. restaurant industry had three major segments:

Fast food. This segment was defined as restaurants whose patrons paid *before* eating. Purchases were consumed on-site, taken out, or delivered. Snack bars, cafeterias, and buffets were included in this segment. The 300,000 fast-food outlets in the United States generated \$184 billion in revenues in 2010 with an average profit margin of 3.5%. Almost half of segment revenues went to large national chains such as McDonalds, Burger King, and Starbucks. Although some of its locations offered in-restaurant dining and a limited pasta menu, most of Pizza Hut's (Yum Brands) 34,000 outlets qualified as "fast food."

The fast-food segment lost a few percentage points of overall industry share in the mid-2000s as customers sought higher quality or more nutritional alternatives. Specialty and ethnic cuisine restaurants (e.g., Mexican), however, bucked that trend. Industry analysts considered fast food a mature segment with low revenue growth prospects (2% per year, 2011–2015), in part due to market saturation and to increasing consumer awareness of health issues associated with fast foods.

Single location full-service restaurants. With 200,000 establishments, this segment offered a variety of ambiances (formal, casual) and cuisines. These independent restaurants—many family-owned and operated—provided food services via waitstaff, and customers paid *after* eating. They might or might not serve alcoholic beverages. Segment revenues in 2010 were roughly \$89 billion, and profits were \$5.8 billion. The growth forecast between 2011 and 2015 was 2.8%.

Full-service chain restaurants. The 33,400 outlets in this segment provided food services to patrons who ordered and were served by waitstaff while seated and who paid after eating. Some sold alcoholic beverages; others did not. The segment employed 1.3 million people, and generated \$53 billion revenues and \$3.4 billion in profits during 2010. (Porcini's was in this segment; Pronto would fall into it as well.)

The full-service chain segment was highly fragmented, with many participants and a wide variety of food concepts. For example, Red Lobster and Olive Garden (Darden Restaurants, Inc.) featured seafood and Italian cuisine respectively. Cracker Barrel (CBLI, Inc.) and Bob Evans Farms offered American traditional cooking. And Denny's billed itself as the "around the clock breakfast place." Segment revenues were sensitive to changes in per capita disposable income, consumer confidence, and competition from lower-priced fast-food. During the 2008–2009 recession, for example, full-service chain revenues declined 2% to 3% owing to fewer patrons and smaller average checks. Higher wage and food costs caused margins to shrink further. However, revenues rebounded slightly in 2010 and were forecasted to grow 2.5% each year through 2016.¹

Concentration among the full-service chains was low, with only one firm controlling more than 10%; the top seven firms in 2010 accounted for only 35% of sales. A few chains operated nationwide, while others were regional. For example, DineEquity's 1,400 IHOPs, Denny's 1,400-plus U.S. units, and 2,000 Appleby's restaurants could be found in every state, whereas Bob Evans Farms' 538 restaurants were limited to the Midwest, mid-Atlantic, and Southeast states. Legal Seafood's 33 sites were (like Porcini's) confined to the eastern seaboard (see **Exhibit 1** for data on selected competitors.)

The Pronto Concept

In early 2010, senior management had begun seeking opportunities to leverage its brand and operating know-how. Carryout stores were one option, but management ruled it out because of intense competition, an inability to sell margin-boosting liquor, and its potential to diminish the company's brand image. Catering was another possibility, but no one at Porcini's stepped forward as its champion. From his marketing perch, Tom Alessio had kept a keen eye on the industry, competition, and customer trends. He sketched out another alternative—Porcini's *Pronto*. Key features included locations at interstate highway exits, Porcini's-quality food and service, and a limited selection of beer and wines. Alessio said:

Fast-food restaurants have been serving travelers successfully for decades. Even in a down economy people travel for business or pleasure, mostly on the interstate system, and they all have to eat. But even if they are on a tight schedule, many want real table-served meals. Cracker Barrel has done very well with its traveler-oriented strategy, even though they generate no revenues from alcohol. Denny's has also targeted highway locations. We can learn from these and other chains.

Management authorized Alessio to form a team to further develop the concept and gave it a budget sufficient to engage a real estate consultant and a market researcher. The team (Alessio, the

¹ www.ibisworld.com

operations VP, and the HR director) proposed the purchase of two existing restaurants at separate locations; these would be test beds for Pronto's operating strategy and menu offerings. If all went well, a broader rollout would follow. Chef Mariana Molise would develop a special Pronto menu in her test kitchen; it would be less extensive and priced slightly lower than Porcini's traditional fare. Speed of preparation and popularity with customers would influence the final menu. Molise's popular *porchetta arrosta* and *pesca spiedina* were early candidates for Pronto's "house specialty" category. **Exhibit 2** highlights differences between Porcini's and Pronto's menu offerings and pricing.

Location Analysis

Research by the real estate consultant indicated that "ideal" locations for Pronto would be:

- Close to busy interstate highway exits
- Near gas stations to which travelers would exit for refueling
- Near economy level lodging (e.g., Hampton Inn, Comfort Inn) whose overnight guests would be looking for moderately priced and convenient dining
- Close to a large office building, office park, or shopping area (Alessio expected that 50% of customers would be nontraveling locals.)
- Within Porcini's, Inc.'s operating area to benefit from name recognition
- Reasonably distant from existing Italian restaurants (e.g., Olive Garden; Bertucci's; Sbarro)

Customer Research

Focus group studies of likely customers (64 subjects: business travelers; vacation travelers; parents of small children; office workers seeking lunch out) conducted by a market research firm indicated the following preferences:

- Dinners (excluding beverages) in the \$9 to \$17 range
- Lunches (excluding beverages) in the \$6 to \$12 range
- Fast, efficient service; patrons in a hurry should be able to complete their dining experiences within 30 minutes at lunch and 45 minutes at dinner time
- Clean, spacious bathrooms

Competition

Several full-service Italian restaurant chains operated in the northeastern region:² Uno Chicago Grill (74 locations); Bertucci's (62); Olive Garden (42); Carraba's (21); Buca di Beppo (5), and Maggiano's (4). Of these, Olive Garden was Porcini's closest competitor in terms of food quality and ambiance. However, none of these chains were sited or designed to serve travelers or in-a-hurry diners. Cracker Barrel, Bob Evans, and Denny's northeastern outlets most directly served Pronto's target market in the full-service segment.

Pizza Hut's dine-in ("Red Roof") format outlet were another potential competitor, though its food quality was of a lower order and was naturally associated with pizza by focus group participants. Sbarro also had a presence, but specialized in "quick service" buffet style meals in shopping malls. (See **Exhibit 3** for characteristics of key competitors.) "In this business," said Alessio, "we can't get hung up on competition from any particular segment or cuisine. When people are hungry, almost any place that serves food is our competitor—burgers, Chinese, whatever. We're not simply

² Connecticut, Massachusetts, Maine, New Hampshire, New Jersey, New York, and Rhode Island.

concerned with Italian." As the project team saw it, the primary competition at most interstate exits would be fast food.

Brand recognition would be a competitive factor, and Alessio knew that Pronto was at a disadvantage on that point, particularly with out-of-region travelers. Denny's, for example, enjoyed 97% brand recognition nationwide.³

Operating Strategy

Per Alessio's plan, each Pronto restaurant would provide seating for 85 customers—40% less than the company's traditional units. Each would be staffed by 12 to 15 full- and part-time employees: a manager, assistant manager, waiters, clean-up people, and kitchen crew. The full-time manager would be salaried; the rest would be paid hourly. All Pronto employees would be eligible for performance bonuses paid quarterly—something that hadn't yet been tried by the company. Porcini's HR director, Wanda Halloran, was confident that an effective bonus system could be worked out within the two experimental sites.

The Right People

The new chain's strategic focus on rapid, quality service meant that employees would have to reflect those values in their attitudes and work. Said Alessio:

Pronto needs team-oriented people for whom the notion of pleasing customers is baked in. They must also be open to having their performance measured—which we don't do systematically at our regular restaurants—and being rewarded accordingly.

I've always been impressed by Southwest Airlines' recruiting practices. For most of its positions, attitude trumps skills. It looks for naturally customer-oriented people who work well in a team. Those are the people we want. We can teach them the skills, but we can't teach them the right attitude. That's something they have to bring with them.

Under Wanda Halloran's direction, the Porcini's chain had put substantial emphasis on human resources and used individual restaurants to experiment with different approaches to recruiting, compensation, training, and retention. When something worked, it was generally adopted throughout the chain. One notable success was its effort to curb turnover. The restaurant industry had always been plagued by high turnover, which undermined the ability to deliver seamless service. According to Halloran, people often left for better or more interesting jobs. "Most unsalaried personnel are young and looking for a job, not a career. They need a reason to stay and be committed. That usually requires good pay and opportunities to grow." Porcini's had successfully brought unsalaried annual turnover down to an enviable 42% (from 75% three years earlier) through experiments with recruiting, pay, and perks.⁴ Those successful policies would be carried over to Pronto.

For Halloran, Pronto was yet another opportunity for experimentation. Three or four standout Porcini's employees—a "Pathfinder Team"—would form the staff core at each new Pronto's location, bringing experience and the company's quality culture in tow. Each team, per Halloran's plan, would

³ Brand Tracker, 2009.

⁴ Turnover at full-service restaurants is startlingly high by the standards of most industries. One source cites annual turnover among non-salaried employees as between 88% and 111%, and 33% to 50% for salaried personnel. Turnover in the fast-food sector is significantly higher for both employee classes. See Amy Zuber, "A career in foodservice: high turnover," *National Restaurant News*, 21 May 2001.

receive a full week of training and indoctrination in the *rapid, quality service* strategy and its implementation elements. The remaining positions would be filled through recruiting.

Pronto job applicants would have to pass several screens: an initial interview with HR; a second with the Pathfinder Team; a personality assessment test; and, finally, an interview with the manager. The personal qualities sought would include an upbeat attitude; good communications skills; reliability; integrity; an ability to work well with others, and a positive attitude toward performance-based pay. Successful applicants would receive some instruction at the company's training facility, then move to on-the-job training under the guidance of their Pathfinder Team.

Absenteeism was another industry problem that undermined seamless service. "When someone fails to show up, it throws a monkey wrench into our operations," complained Jensen. It takes longer to serve people when we're short-handed. Food gets delivered cold. Orders get mixed up." As an antidote, Halloran suggested that Pronto implement a bonus paid-leave program. Two Porcini's restaurants had been experimenting with such a program during the past 18 months. Under that program, each hourly employee earned an additional half-day of paid vacation for every month in which he or she missed no scheduled work (or provided a substitute). Perfect attendance for an entire quarter earned one additional paid vacation day. Thus far, the program had reduced the absenteeism rate among hourly employees by 24%.

Quality As Customers See It

To monitor quality, each Pronto restaurant booth would be equipped with a 10x14-inch flat-screen monitor linked to the company's central processing unit. The monitor would display a rolling slideshow of the sun-drench Italian countryside, its vineyards and farms—and an occasional photo of an eye-catching Pronto dessert. Once the waitperson handled the bill, she would tap a touch-sensitive icon on the screen, bringing up a customer satisfaction questionnaire with the heading "How are we doing?" The waitperson would then say:

Thanks for joining us at Pronto. We hope that you enjoyed your meal. And if you have just a moment to spare, we'd appreciate some feedback on the quality of our food and service. It takes only a few seconds. Just use the touchscreen buttons to register your opinions. Would you like to try it?

If they agreed to participate, the waitperson would give the table a "Porcini's Pals" card worth \$3 off the future purchase of an entrée at any Porcini's or Porcini's Pronto restaurant. Focus group research estimated that an offer of this size would increase the likelihood of a customer completing the questionnaire from 38% to 73%. "And," said Alessio, "a discount card should encourage repeat visits."

The questionnaire aimed to (1) capture the most relevant aspects of the customer's experience; (2) elicit responses that could be directly linked to controllable restaurant operations; and (3) be easy for the customer to complete. The questions invited patrons to rate:

- The courtesy and efficiency of their server
- Meal quality
- Speed and quality of service
- Value for the money
- Restaurant appearance and cleanliness
- Cleanliness of the restrooms
- The overall quality of the visit

Software would automatically match each customer's response to the appropriate service person (e.g., waiter) or operation (e.g., kitchen; restroom cleaning), or the manager (e.g., "overall quality of the visit"). In this way, the ratings would produce a performance scorecard for individual employees, teams, and for the restaurant as a whole. Management would use those scores to identify and correct areas of quality weakness and to reward employee performance. Scores for teams (wait staff, kitchen crew) and the restaurant as a whole would be posted for employees. Employees would be able to earn quarterly bonuses up to 10% of wages for high performance. Part of the bonus would be individually based, and part team based.

Operations VP Jensen, however, wasn't satisfied with the customer questionnaire as the sole mechanism for measuring quality. "We need to develop and enforce our own metrics. For instance, we might measure how long it takes to seat a customer and take her order, to prepare a typical entrée, and so forth." His concern generated discussion about the use of "secret shoppers" and other methods. Which metrics to use and how to gather them, however, remained an unanswered question. And because Porcini's relied on each of its experienced restaurant managers to maintain standards, there were no existing metrics to pick from.

Speed Through Technology

Eager to increase waitstaff productivity, the company studied several U.S. chain restaurants that employed wireless order-taking devices and credit/debit card payment terminals brought to the table by waiters. The former assured fast, accurate orders to the kitchen; the latter devices allowed customers to pay their tabs just as they would at a grocery store, by swiping their cards (and entering a PIN number in the case of debit cards). "A lot of time is wasted," said Kurt Jensen, "in getting the bill to the customer, returning to pick up the bill and credit card, running both over to the cashier—who's usually busy—then returning to the table for the customer's signature. This is a source of delay that we should eliminate." Pronto seemed a perfect setting in which to experiment with the new technology. "If you've ever made a purchase in an Apple store," Alessio added, "the person waiting on you doesn't run off with your credit card. He doesn't ask you to stand in the cashier's line to pay for your purchase. He swipes your card right there and sends you on your way. It's that fast."

Options for Growth

Even as it worked on HR and operational issues, the project team puzzled over Pronto's expansion options. Senior management wanted alternative growth options explored *before* making any commitments. The team was equally concerned since those different options would affect Pronto's ability to deliver quality food and service.

Management and the board had always taken a go-slow approach to their traditional business, but they favored faster expansion for Pronto. As one board member put it:

Lots of companies in this industry have grown too fast. They've either gotten in over their heads financially or lost control of operations and quality. We won't make that mistake with our core business. Pronto, on the other hand, offers an opportunity to take a measured risk with rapid expansion. Its outlets will be smaller than our existing restaurants and should be easy to manage [see **Exhibit 3** for a Pronto versus Porcini's size comparison]. And if results are disappointing, we can sell off our properties to another chain without much loss.

If the project were approved, Porcino's, Inc., would purchase or lease two restaurants in "ideal" locations and operate them as test sites. If these met their goals, a broader rollout would follow. The real estate consultant estimated the total cost for land, building, and fitting out at \$2.1 million (versus

\$4.3 million for the most recently built Porcini's). The project team estimated that each site would generate \$2.4 million in annual revenues after an initial start-up period.

Three approaches to site acquisition and development were considered. One would purchase prime real estate locations, borrow the capital needed to build and equip each new Pronto's, and then operate them. This "company own-and-operate" approach would give Porcini's total control of operations and the customer experience. Said one senior executive: "At \$2.1 million per unit, we could arrange financing for only one or two locations per year. Alessio's team estimated that this strategy, and Pronto's faster customer turnover rate, would produce a 6% pre-tax profit margin for the company (see **Exhibit 4**).

Franchising

Franchising, the dominant strategy among chain restaurants, was another option. In the fast-food segment, almost 80% of McDonalds outlets were owned and operated by franchisees. In the full-service segment, 1,318 of Denny's 1,551 restaurants were franchises. Major restaurant chains considered new franchise agreements their main avenue for growth.

A franchise is a business relationship in which an individual "franchisee" pays a fee to the franchisor and, in return, has use of a trade name (e.g., McDonalds). The franchisee must operate the business model according to standards and practices contractually stipulated. The franchisor is obligated to provide marketing support, management training, and advice. Many allow franchisees to purchase supplies/food through their volume-purchasing system.

As Alessio saw it, expansion through franchise agreements had attractive features. The company would be able to shift its attention and limited capital from restaurant-level operations to systemwide marketing and brand building. The cost of construction and site acquisition (or leasing) would be shifted to franchisees and would likely bring outlets into operation more rapidly. But there were negatives. "Porcini's isn't a household name like Burger King," said the CFO, "and Pronto has no track record. So it's doubtful that we could extract high fees and royalties from franchisees. The CEO had another concern:

Do we want our brand in the hands of people we can't totally control? Sure, the contract would require them to meet our standards, but that can break down in practice. How seriously will a franchisee take your customer questionnaire, Tom? We have no experience in enforcing franchise standards.

"However," said the real estate consultant, who had experience in this matter, "you can limit your risk by dealing only with experienced restaurant operators. You could contractually require them to personally participate in the business, and restrict them to one property until they've proven themselves." He then described typical terms in the franchise restaurant agreement: a 20-year term with renewal at the franchisor's option; a 5% to 6% royalty on gross revenues, and an upfront fee. "That fee depends on the strength of the brand," he noted. "And you can structure the deal so that each franchisee is responsible for his own financing." He explained that some franchisors handle all development, including market analysis, feasibility studies, site selection, and construction themselves, then lease the property to the operator. "But in others," he continued, "franchisees must buy or lease the land in an attractive location, and build the restaurant themselves. Since Porcini's doesn't have a construction department, that might be the way you should begin."

As estimated by the consultant, Porcini's would need to invest roughly \$1 million in legal and staff resources to develop a franchising agreement and franchise system supports. And, for planning purposes, the project team figured on a 2% pre-tax margin on revenue (net of its costs) from its

franchisees. They also assumed that upfront franchise fees would be burned up in the process of vetting prospective franchisees and negotiating their deals.

Syndication

Syndication represented another alternative; it would shift property ownership to investors while giving full operational control to Porcini's. Major U.S. hotel chains had used this approach to expand operations rapidly, according to the real estate consultant. In a syndication deal, he explained, the chain identifies and purchases a number of sites, builds and furnishes a facility on each, then sells the portfolio of properties to an investor group—or to the original landowners—thereby recouping and recycling its capital into another syndication deal. The chain then operates the properties on behalf of the owner/investors in return for a percent of revenues plus an incentive fee based on profitability. "Together, these might amount to 4% of annual revenues," said the consultant." (See **Exhibit 4**.) "Syndication has advantages aside from limiting your capital outlays," he continued. "I think it will bring you more prime sites along the highway system. Prime undeveloped locations are mostly owned by investors. If you can turn their land into a cash-generating business, you'll be more successful in getting the sites you want."

Syndication would leave Porcini's in full control of hiring, training, performance management, and the consistency of food and service quality at each new property. "And," added HR's Halloran, "operational control would create opportunities for career advancement for our employees. Turnover goes down when people see opportunities to move up."

"Syndication is not all roses," the CFO piped in. "There are substantial transactional costs in these deals. Even in a private syndication you've got an investment banker, a gaggle of lawyers, and closing costs. I'm told that these transaction costs alone can equal 6% of the value of the property." (See **Exhibit 4** for the investment and ownership/operating relationships underlying different Pronto's growth options; and **Exhibit 5** for the company's projection of Pronto rollouts under each option.)

* * * *

Tom Alessio was both excited and apprehensive about the initiative he had put on the table. Pronto would open a new avenue for growth. But there were uncertainties—about food and service quality, finances and profitability—management would grill him on each. And someone was bound to ask, "Why don't we stick to what we've been doing so successfully?" Alessio began thinking about how he would create a business case for Pronto and bring all of its elements into a coherent and workable strategy.

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Exhibit 1 Performance of selected full-service restaurant chains

	Segment Market Share	Latest Reported Rev. (\$ millions)	Latest Reported Net Earnings (\$ millions)	Net Profit Margin
Darden Restaurants (Olive Garden, Red Lobster, etc.)	14.2%	7,214	371.8	5.1%
CBRL Group (Cracker Barrel)	4.6%	2,367	85.2	3.6%
Bob Evans Farms (restaurant segment)	2.8%	1,410	66.3	4.7%
Denny's, Inc.	1.2%	2,200	41.6	1.9%

Source: www.ibisworld.com**Exhibit 2** Porcini's versus Pronto: proposed dinner menu (by menu category and average prices)

	Porcini's		Porcini's Pronto	
	# of offerings	Average price	# of offerings	Average price
Antipasti	12	\$10	5	\$8
Soups	3	\$6	2	\$5
Salads	7	\$8	2	\$6
Pizza	a	a	4	\$11
House specialty entrees	6	\$17	3	\$14
Pasta entrees	20	\$15	6	\$12
Seafood entrees	5	\$19	2	\$15
Meat and chicken entrees	9	\$17	4	\$14
Side dishes	5	\$6	3	\$4
Desserts	5	\$6	3	\$5
Wines (choices available)	24		5 ^b	
Coffees	5	\$4	5	\$4

^a Pizza is on Porcini's lunch menu only^b By the glass only at Pronto's**Exhibit 3** Characteristics of selected full-service chains (e = estimated)

	Outlets in NE U.S.	Average sq. footage	Average seating	Average rev/outlet (millions)
Cracker Barrel ^a	23	9,200	195	\$3.3
Olive Garden	61	7,600	170	\$4.8
Denny's	79	4,900	112	\$1.4
Pizza Hut (dine-in)	187	936	78	N/A
Porcini's	23	6,900	142	\$4.1
Porcini's Pronto	–	4,200e	85e	\$2.4e

^a Includes gift store square footage and revenues

Sources: Data from industry reports and site visits

Exhibit 4 Investments, and ownership/operating relationships underlying different Pronto's growth options

	Company Owned/Operated	Syndicated	Franchised
Porcini's investment	\$2.1 million per site	\$2.5 million syndicate transaction cost ^a	\$1.0 million ^b
Ownership	Company buys land, builds facilities	Investors buy land and buildings from company	Franchisee responsible for buying or leasing well-situated land, and building restaurant to company specs. Responsible for financing.
Operational control	Company	Company	Franchisee manages according to Pronto specs
Estimated profit margin ^c	6% of revenues		
Franchise application fee			\$40,000 (used to vet applicant and negotiate deal)
Operating commission and incentive fee to Porcini's		4% of revenues ^c	
Pronto's franchise operating fee			5% of revenue (less 3% costs) = 2% net to Porcini's ^c
Services provided by Company			Training/advice; menu development; co-op marketing; etc. (the 3% costs noted above)

^a Estimated syndication transaction costs at 6% for \$44.5 million syndication deal, yielding \$42 million to Porcini's (enough to build 20 Pronto restaurants over its planning horizon). The team assumed that it would float one syndication deal for half of that amount in 2012 and another in 2015.

^b Estimated one-time cost of developing a franchising agreement and supporting systems

^c As estimated by Porcini's finance department

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Exhibit 5 Pronto rollout scenarios

	2011	2012	2013	2014	2015	2016	2017	2018
Company-Owned								
Units opened during year	2 ^a	0	2	2	2	2	2	2
Cumulative	2	2	4	6	8	10	12	14
Franchised								
Units opened during year	0	0	4	4	4	5	5	6
Cumulative	0	0	4	8	12	17	22	28
Syndication								
Units opened during year	0	0	2	3	3	4	4	4
Cumulative	0	0	2	5	8	12	16	20

^a Purchased test restaurants

Source: Consultant's study