



# DQ GRILL & CHILL

Beloved ice-cream brand turns up the heat with new look, expanded menu

By Dave Wolkowitz

**A**lmost everyone has fond childhood memories of eating at Dairy Queen. That royal bastion of frozen, soft-serve goodness seems to have been around since ice cream was invented.

But while the 65-year-old DQ brand has proved its staying power, its management recognized that over time the brand had become a hackneyed version of its former self.

So in December 2001 International Dairy Queen Inc. launched DQ Grill & Chill, a fast-casual concept with a broader menu, in an effort to resuscitate its brand and spur excitement among guests and franchisees. So far 51 DQ Grill and Chill restaurants are operating, with 41 in the United States, 9 in Canada and 1 in Bahrain. Officials expect to have 185 units by the end of 2005. Nearly 5,700 Dairy Queen outlets are located in the United States, Canada and 22 other countries.

Mike Keller, chief brand officer of Edina, Minn.-based IDQ, characterizes the task of reinventing DQ as a "turnaround specialist's dream" and notes that the market previously didn't consider DQ to have a viable economic model.

"We had a phenomenal brand that was internationally known and widely loved but in many ways in trouble," he explains. "It was associated almost entirely with treats. Locations were 30 years old, too suburban and out of proportion.

"Our efforts were about modernizing an American icon that had grown tired over more than six decades," he continues. "Unit growth had stagnated. To build bigger restaurants and put them in better real estate, we needed to change the brand. For several years we were losing more stores than opening new ones."

Keller says DQ Grill & Chill evolved from the ambiguous Dairy Queen/Brazier concept - DQ's food effort launched in 1957. But brand overhauls don't happen easily.

"My advice to anyone looking to revise a concept is

to look well beyond ephemeral marketing and to strike at the core of the brand," he explains. "Be very honest about what you are telling your customers. You might be scared at what you find. In our case no one knew what Dairy Queen/Brazier meant."

Keller cites two key elements in renovating the DQ brand: revitalizing and modernizing the trade dress and developing a new menu. "We had to signal new food credentials," he says. "The menu and the brand define each other."

DQ Grill & Chill's menu has expanded beyond the old Brazier version of burgers, fries and Blizzard ice-cream treats. In addition, the Grill & Chill units offer grilled turkey sandwiches on sourdough, quesadillas, "grill burgers" that weigh more than a quarter of a

kitchen with burgers they can smell grilling."

DQ didn't just develop its new concept in a vacuum. Chuck Chapman, DQ's chief concept officer, says a franchisee task force was created to assist in the development of the concept. The task force was composed of 11 franchisees representing about 800 locations — one franchisee owned as many as 500, while others owned as few as one.

They studied consumers and competitors while brainstorming, discussing and evaluating all aspects of the creation of the concept, including design, menu development, technology and operations.

The task force created 33 potential positions for the new concept and tested them quantitatively and qualitatively. Two positions stood out from the rest and were

benchmarked against what DQ believes to be its strongest competitor, McDonald's. According to Chapman, the runner-up concept "leveraged a heritage, back-to-the-future type of position. The problem is that so many others already had tried to fill that space. The reality is that we wanted to be in a separate and distinct space we could own."

Eventually, the more contemporary-leaning concept won out. To create a more upscale ambience than the Dairy Queen/Brazier locations, DQ Grill & Chill restaurants have a different style of service. Patrons order at the counter, and their food is brought in individual baskets to their tables by employees, versus on one tray. Condiments are located

on tables instead of being centrally located. And the outdoor seating features cafe-style umbrellas and an outdoor sound system.

Chapman recalls one example of franchisees changing their minds as the result of market research.

"Franchisees were adamant that they wanted laminate seating, stuff that is really hard and doesn't chip," he says. "Consumers said they really wanted padded booths. We tested padded booths, and consumers loved them. The franchisees realized wear and tear is fine even if it costs a little bit more. Consumers were saying it's a great aspect to the restaurant and not to take it away."

Keller says franchisees also developed innovative ideas.

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Dairy Queen in 2001 introduced DQ Grill & Chill, which features an expanded menu, to revive the now 65-year-old ice-cream brand. Officials expect to have 185 locations by the end of 2005.

pound and locally sourced, high-quality buns.

Along with changing the menu, altering the trade dress was a high priority because of the need to signal the shift of the brand boldly, Keller says.

"For DQ Grill & Chill, we developed a very striking facility that gave off incredibly clear food signals," he says. "It has a towering chimney, and when guests walk in, they see their favorite treats next to an open



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"The support of franchisees is critical," Keller explains. "It is their capital that will drive the growth of DQ Grill & Chill and help revitalize Dairy Queen. What is unique about DQ is that we are in two businesses, grilled food and chilled deserts. You have to be really efficient in the way you manage resources. A significant contribution of the task force was the concept of a cold kitchen designed to avoid interference with high-volume food production while still working with dine-in and drive-thru. It was a different design than corporate had thought of."

Tom Miner, a principal at Technomic Inc., a restaurant consulting firm in Chicago, applauds IDQ for tapping into its franchisees' brainpower. However, he is curious about the wisdom of separating grill and chill production areas.

"I question whether separating any kind of production function into silos allows optimal cross-utilization of the labor force," Miner says. "Admittedly, it's hard to imagine someone who is making hamburgers also scooping ice cream. But one of the difficulties DQ faces is combining an ice-cream concept with a grill concept. Perhaps the reason the new facilities are larger is to allow for a more substantial labor force to split the duties."

Chapman said that on average DQ Grill & Chill units seat 85 people, double the capacity of the typical Dairy Queen/Brazier unit. The staff size has grown as well. The average DQ Grill & Chill restaurant requires 40 to 45 full- and part-time employees, slightly less than double its predecessor's requirement.

Miner notes that some fast-food operators recently have tried to move into the fast-casual arena without fully understanding the market. He says DQ Grill & Chill's procedure of taking orders at a counter and then delivering the food to guests' tables is fairly expected but could entail some challenges.

"When guests order at the counter and wait at their tables for their food, they have a more upscale experience, but it takes longer. If customers are coming to DQ because they have five to seven minutes, and the new



Although DQ Grill & Chill units feature an updated decor and a menu that features sandwiches, burgers and quesadillas, the chain still will serve frozen treats, like the Blizzard, below, for which Dairy Queen is best known.



concept doesn't deliver because of cooking and food serving time, there could be pressure on the convenience factor during lunch," Miner says.

Miner also says he believes much of the success of DQ Grill & Chill is based on how well the new concept fulfills consumers' expectations.

"Do their grill items match the quality of chill items? The chain has existed for decades on the quality of chill," he notes. "What DQ Grill & Chill has to prove is that it has grill of equal quality to chill. It's not a variety play; it's a quality play."

DQ's Chapman, who is slated to become IDQ's chief operating officer in the fourth quarter of 2005, agrees with Miner that creating and managing new concepts is fraught with challenges. He says DQ Grill & Chill is succeeding thanks to the brand recognition and continual refining of a concept conceived through intensive market research.

DQ Grill & Chill's approximately \$6-per-person check average is a 20- to 25-percent increase over Dairy Queen/Brazier's numbers. And the nearly \$1.3 million in average unit volumes of the new concept is more than double the volume at a Brazier unit. Several DQ Grill & Chill locations have annual sales close to or greater than \$2 mil-

lion, officials say.

While numbers like those provide a powerful incentive to convert to the DQ Grill & Chill concept, Chapman says existing franchisees are not required to make the change. Last spring several franchisees made their opposition to converting to the new concept known during a shareholders' meeting of Berkshire Hathaway Inc., which acquired IDQ in 1998. Many cited the \$400,000 price tag as a de-

terrent. But Chapman says that franchisee conversions will occur gradually, when units are relocated, remodeled or rebuilt.

"We don't want this to be driven by force," he says. "The program won't be successful without willing participants. It has to make good economic sense and fit the franchisees' life circumstances. A franchisee's lease may expire in five years, so it wouldn't make sense to convert now. But at some point everyone will have to reinvest."

Technomic's Miner says site planning and location issues are two of the most significant challenges mature chains face when trying to reinvent themselves.

"What were A- and B-quality locations are now C and D quality, and the investments they have in leases and sites has eroded," he explains. "The problems are not being near the customer base and difficulty funding the new concept. Franchisors have huge problems because franchisees are rooted in sites, and they expect to stay in the same site until they are done with it."

Rick Plaisted, a fourth-generation Dairy Queen franchisee, was on the task force that helped create the DQ Grill & Chill concept. He says franchisees were excited about the potential of a new concept and knew their tired brand needed "a shot in the arm." According to Plaisted, franchisees felt the creation efforts of the concept were eye-opening and confidence-building.

"We were quite amazed at the money and effort that went into it," he recalls. "Most ideas ended up in the trash barrel. But then we found ideas that would make a difference. It was kind of like a jigsaw puzzle: Some pieces fit, and some didn't."

Plaisted, who opened a DQ Grill & Chill during the first quarter of 2004, says the new concept generates almost twice the volume of his Dairy Queen/Brazier unit, with check averages \$2 to \$3 higher per person and an increase in the number of families and groups that stop by. He says his customers like seeing their food cooking in the "open kitchen."

According to Plaisted, the new, bolder design helps DQ Grill & Chill "command" its area and improves community interaction. For instance, more than 18,000 students from every school in a 10-mile radius of his Bradenton, Fla., restaurant have participated in a fundraising event that involves teachers performing the duties of DQ employees while serving their students.

Chapman advises others who are considering reinventing a staid brand to pursue incremental change.

"If someone else were venturing down this path, they should spend a lot of time thinking about maintaining their brand's core equities while providing safe adventurism to consumers," he says. "It's about keeping something consumers love while still giving them something new they find exciting. Our real trick in repositioning involved understanding core equities and how to leverage them while providing safe adventurism. It is possible to go too far."

## AT A GLANCE

**CONCEPT:** DQ Grill & Chill

**OWNER:** International Dairy Queen Inc.

**HEADQUARTERS:** Edina, Minn.

**YEAR FOUNDED:** 2001

**NO. OF UNITS:** 51; 2 company owned, 49 franchised

**CHAIN'S ANNUAL SALES:** not available

**AVERAGE ANNUAL SALES PER UNIT:** nearly \$1.3 million

**PER-PERSON CHECK AVERAGE:** \$6

**TARGET DEMOGRAPHICS:** adults aged 18 to 49

**WHERE IT TRADES:** Arkansas, Delaware, Florida, Georgia, Illinois, Indiana, Kentucky, Maryland, Minnesota, North Carolina, Nebraska, Pennsylvania, South Carolina, Tennessee, Washington and Wisconsin.

**NEW MARKET TARGETS:** all over North America

**TOP EXECUTIVES:** Ed Watson, chief operating officer; Chuck Chapman, chief concept officer; Michael Keller, chief brand officer; Lon Brew, executive vice president of operations; Glenn Lindsey, vice president of research and development; John Gainor, executive vice president, supply chain management; Jean Champagne, chief operating officer international; Jim Simpson, chief financial officer