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This Week's Issue

Baja Fresh buyers look to inject new life into struggling chain

By Lisa Jennings

THOUSAND OAKS, Calif. (Dec. 18) - New owners of the 295-unit [Baja Fresh Mexican Grill](#) chain promise to revive the struggling brand by bringing to the table a renewed entrepreneurial spirit.

In a deal that closed Nov. 28 — and was regarded either as the bargain of the century or a fire-sale jettisoning of a troubled holding — BF Acquisitions Holdings LLC bought Baja Fresh for \$31 million from [Wendy's International Inc.](#) The transaction ended the Dublin, Ohio-based seller's four-year struggle to recoup a \$275 million purchase it had made of the then 249-unit fast-casual chain.

David Kim, now chief executive of Baja Fresh and head of a group of unidentified investors behind the purchase, appointed James Walker to be president of the beleaguered Mexican brand.

A foodservice veteran who spent five years with [Popeyes Chicken & Biscuits](#) parent [AFC Enterprises Inc.](#) in Atlanta, Walker also is president of [Sweet Factory](#), a global candy store chain based in Anaheim, Calif., that Kim owns. Kim is also a franchisee of [Cinnabon](#), [Denny's](#) and the flower delivery service KaBloom. Baja Fresh, however, will be operated separately from Kim's other businesses, and will maintain its headquarters in Thousand Oaks, Walker said.

Baja Fresh franchisees expressed hope that the brand's new owners would revive the chain, which saw consistently declining same-store sales among corporate units under Wendy's ownership. Average-unit volumes for those stores fell steadily during that era, from \$1.5 million in 2002 to \$1.2 million in 2005.

"We're optimistic that a new emphasis will be placed on going back to our roots and doing some of the things that made us popular early on," said Dennis Rohde, a partner in G&D Management Inc., a Los Angeles franchisee with 12 Baja Fresh units. "We were kind of overlooked to a degree by the previous owner."

Kim declined to be interviewed. But Walker said the management team was undergoing some changes. Kevin Miles, who was Baja Fresh's vice president of operations under Wendy's ownership, will maintain that role. However, newcomers include Meade Wildrick, former field marketing manager at [Del Taco](#), who was named head of marketing for Baja Fresh, and Pete Banchery, previously of SMS Purchasing in Atlanta, who is the chain's new head of purchasing.

Walker said a new director of research and development would be named soon, but there would be no major changes in field management and no store closures. He predicted that the chain "will do particularly well with a leadership team that has an entrepreneurial nature. That core value is what made Baja Fresh a great company from the beginning."

The chain's first unit was opened in 1990 in Newbury Park, Calif., by Jim and Linda Magglos, who pioneered its motto of "no microwaves, no can openers, no freezers, no lard and no MSG." They sold Baja Fresh in the late '90s to an investor group headed by Greg



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Dollarhyde. It grew the chain from 45 locations in 1998 to the 249 stores [Wendy's](#) purchased in 2002. Wendy's then grew Baja Fresh to more than 300 units, though low-performing units, primarily in the East, were later closed as the brand struggled in an increasingly crowded Mexican fast-casual segment.

Franchisees, who own about half of the chain's outlets, have seen their average-store sales generally rise slightly or remain flat in recent years, though decreases by the Wendy's-owned system had a "negative halo effect on the brand," said Stephen T. Pettise, a principal of the Golden Spike Resource Group consulting firm in Los Angeles and a partner and president of a three-unit Baja Fresh group in Northern California.

Pettise said the chain's struggles could be blamed in part on the choice of weak locations by Wendy's. And such rivals as [Chipotle Mexican Grill](#) and [Qdoba Mexican Grill](#) have done a better job of communicating the essence of their brands, he added.

"I think Baja Fresh failed to evolve," Pettise said.

Both Rohde and Pettise said menu items added in recent years slowed speed of service — long regarded as a Baja Fresh handicap. "It's critical to us to have low ticket times," Rohde said. "That's what brings customers back."

Stuart Morris, president of QSR Consulting Group in Coronado, Calif., said Baja Fresh's menu is relatively complicated, compared with those of Chipotle and Qdoba, whose "Subway" format allows customers to choose ingredients as their food is prepared. But one of Baja Fresh's advantages is that "the food is good," Morris said. "They just have to repackage the entire experience."

Walker agreed that the brand's strength is the quality of its food, as well as its service.

Walker left AFC Enterprises after it sold the Cinnabon brand to Roark Capital Group in 2004. He then moved to [CinnaWorks](#), the Cinnabon franchisee owned by Kim, and later was named president of Sweet Factory.

"As I visit more stores, I'm still wowed by the food," Walker said. However, Baja Fresh's new management team would be taking a hard look at operations in coming weeks, particularly service speed and "better ways to convey the message of the brand," he said.

Some "menu tweaks" can be expected, as well as "alternatives to grow that haven't been tried before, such as strategic alliances."

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