

JUNE 14, 2011, 4:32 P.M. ET

Cheesecake Factory To Take Its Grand Lux Chain Down A Notch

By Annie Gasparro
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NEW YORK (Dow Jones)--Cheesecake Factory Inc. (CAKE) is toning its Grand Lux Cafe chain down a bit, making it look more like its namesake restaurants after it failed to keep drawing in the crowds it expected.

The new Grand Lux model, the first of which will open early next year, will be smaller than the chain's current 13 locations, scaling back to roughly 8,500 square feet from the vast and extravagant 11,000 square feet prototypes.

The casual-dining guru is also dressing Grand Lux down with the new model, making the "decor less formal and fancy," so as not to intimidate the average suburban family who wanders in after a trip to the mall on a weekday night, explained Cheesecake's Chief Executive David Overton.

As part of the efforts, the company also recently rolled menu prices down about \$2, to better match Cheesecake's menu with \$19 to \$20 average checks. It's also preparing to launch a new menu in the fall that will remove 25 current items and add 20 more.

The company is not disclosing how much of its cap-ex spending is going toward these changes.

The original Grand Lux concept opened in Las Vegas in 1998 as a lower-cost alternative to the typical Venetian Hotel fare with a similar flashy, upscale feel.

"But what worked in Vegas didn't have the same success in the suburbs," Overton said. "We figured all the pent up demand that couldn't get in to Cheesecake would go to Grand Lux, and if they have the money to go to Cheesecake, then they could paying a couple bucks more for something a bit nicer."

However, "what we found was that people turned around and left, saying they'd come back when they were dressed nicer," he concluded.

And the numbers show it.

Grand Lux reported same-store sales fell 3.8% in the first quarter compared with the same period last year. In the fourth quarter of 2010, its same-store sales were down 0.4%, even though it was lapping the year-ago's decline of 3.9%.

Now, Cheesecake Factory is hoping to turn the chain around, back to its high-performing days of old.

Lowering menu prices at a time when fuel and food costs are rising without showing signs of letting up is risky. If the company isn't able to offset the smaller check values with increased traffic, its sales could take a further hit.

With the menu changes, the company also risks Grand Lux looking like a copy-cat of its widely successful sister chain. But Cheesecake Factory isn't planning to throw in the towel and convert Grand Lux Cafes in to the concept it knows to already work. Instead, it's hoping the changes will position it for further growth.

"The new model is more approachable, and the smaller size of the box will help us get it ready for better growth," Overton said.

The pushback for being "too fancy" hasn't hit the Vegas location, which is the highest grossing of the 13 locations. The company also operates a more upscale fine-dining restaurant called RockSugar Pan Asian Kitchen, which currently only has one location in California.

The company's primary Cheesecake Factory chain has done well the past few years, compared with its deep-discounting casual dining peers. Its first quarter same-store sales rose 2.1% year-over-year. It has made significant cost saving strides following the recession that are now helping it offset the high commodity costs burdening the industry.

The company, whose stock has risen about 20% over the past year, is scheduled to report second quarter earnings results after the market closes on July 20.

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