

Potbelly Prepares For Growth

Quirky sandwich chain Potbelly Sandwich Works is adding locations in 2005 and beyond as its quality food catches on.

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When Bryant Keil purchased Potbelly Sandwich Works in 1996, it was a quirky sandwich joint on Chicago's north side with a bit of a cult following. While he envisioned the broader success that Potbelly could one day have, it really was his love of the store that ultimately sealed the deal. A couple with an antique store had begun to sell sandwiches out of one corner in the 1970s. By the time Keil discovered Potbelly in Chicago's Lincoln Park neighborhood, the sandwich business had overtaken the couple's antique business. Keil was charmed by the atmosphere at the store — as were the couple's many repeat customers — and he offered to buy it. Using that same atmosphere and great food as the foundation, Keil has expanded Potbelly Sandwich Works to more than 60 locations today, with plans for many more in the years to come.

Shopping Center Business recently met with Bryant Keil, president and CEO of Potbelly Sandwich Works, along with Tom Jednorowicz, chief development



Potbelly's location in downtown Evanston, Illinois.



Inside Potbelly Sandwich Works, the décor is a bit different than what you might expect from a sandwich shop. The company tries to use locations that have architectural details and elements that make the store different.

officer and senior vice president; and David Selby, chief marketing officer and senior vice president, at Potbelly's headquarters atop the Merchandise Mart in Chicago. Also present was Arthur Rubinfeld, president and CEO of AIRVISION, a firm that has helped Potbelly strategize for expansion [for more on AIRVISION, see *SCB* June 2004].

HIRING EXPERIENCED HELP

Keil began the expansion of Potbelly very carefully. After learning the ropes by running the original store for over a year, he began expanding to other locations in Chicago. After the seventh location, he realized that in order to grow

the business, he would have to raise outside capital and turned to high net worth individuals who wanted to invest. One of the investors was friends with Dan Levitan, who was a principal of the Seattle-based venture capital fund Maveron. Levitan was impressed with Potbelly and brought Howard Schultz, the founder and chairman of Starbucks Coffee Company and also a principal in Maveron, to see Potbelly. Schultz brought along Arthur Rubinfeld, who was formerly Starbucks' executive vice president of real estate, to see the concept as well.

"I had read *Shopping Center Business's* article on Starbucks [May 2000] and said to my team, 'It would be good to

get a guy like Rubinfeld into our company," says Keil. "They both visited with us and were very impressed with what we were doing."

Howard Schultz subsequently joined Potbelly's board of directors and Rubinfeld has, along with his team at AIRVISION, provided guidance for Potbelly in its expansion. Today, the company has 68 stores in Illinois, Minnesota, Indiana, Wisconsin, Michigan, Maryland, Virginia, Texas and Washington, D.C., and this year, the company is planning to increase that number significantly.

ENABLING GROWTH

One of Keil's key strategies in driving growth has been to build the infrastructure before store growth actually occurs. This puts the systems and operations in place before stores open.

"For all store openings, we have systems in place and people in place who have been there and done it before," says Keil. "We have a great team."

Potbelly hasn't been afraid to hire talent, either. Selby is the former head of marketing for Sears, while Jednorowicz has done thousands of development deals for Boston Chicken, Einstein's, Cusi and Burger King. With the backing of Maveron, Benchmark Capital and several other blue chip investors, Potbelly is also well funded for its expansion.

Potbelly's growth has gone far beyond Chicago. Its first expansion took it to Washington, D.C., where it saw many of the same traits in that urban market as it did in Chicago. Expansion to suburban Virginia and Maryland followed after Potbelly had located several stores in the office markets of the District itself. The company then expanded to Madison and Milwaukee, Wisconsin, followed by Minneapolis where Potbelly now has four locations. The company opened several stores in the Dallas market in 2004, and plans additional Texas locations in 2005. Potbelly has also expanded to Detroit, central Illinois and has one location in Indiana. In 2005, the company will continue to focus on existing markets while adding Ohio to the list of states where it is operating.

"We don't want to jump into too many markets at one time," says Keil.

"It is very challenging on our operations. We are just beginning to scratch the surface for our expansion. Nationwide, we can do thousands of units. In many respects we are just getting started."

One difference between Potbelly and other players in the fast-casual segment is that all of Potbelly's stores are company owned. And they will continue to be that way.

DEVELOPING CHARACTER

Part of the charm of Potbelly's concept is the character of its stores. Each location has an authentic, vintage feel, which captures the antique heritage of the brand and includes interior details like exposed brick walls, painted concrete floors, classic all wood furniture, antique lighting and smells that are unbelievable. And of course, there is a real Potbelly stove in every store. When looking for locations, aside from looking for areas that have great traffic and daytime demographics, Potbelly looks for buildings that have a personality that's complementary to its concept.

"Any space that adds further character to the concept is a benefit," says Jednorowicz. "We are always dealing with different configurations of space. That is not an obstacle for us when we approach a deal. We will figure out a way — if it is the right space and the right location — to make the layout work and adapt our décor."

Potbelly has stores that range from 600 square feet to 4,000 square feet. The average location is around 2,200 square feet. The company prefers vintage buildings that add the antique personality that its concept conveys.

Potbelly Sandwich Works has a development department that has in-house design and construction abilities. This gives the company the ability to react to the different size locations and older buildings. It enables creativity in store location, which helps create an authentic look for Potbelly.

"One of the biggest challenges that we face in our rollout is making Potbel-



Potbelly is flexible in creating locations that work, like this one at Westfield Shoppingtown Old Orchard in Skokie, Illinois.

ly scalable to different locations," says Jednorowicz. "To a lot of developers, that means making us cookie-cutter. That's not what we want to be. We have developed a model that is scalable and that we can replicate while maintaining the uniqueness and originality of the concept."

Potbelly looks for the best, most high profile real estate it can find. Any aesthetic, vintage attributes to the site are icing on the cake. However, if these attributes don't exist, Potbelly isn't afraid to invest money to create them. For its location at Westfield Shoppingtown Old Orchard in suburban Chicago, the company created a storefront that represents more what Potbelly is about than the architecture of the mall. Similarly, at Chicago's Midway airport, the company added elements like brickwork and unique seating areas to create atmosphere at its location. In Chicago's Streeterville neighborhood, the company redid an entire storefront, adding lighting, steel columns and wood trim, because it wanted the store to match the concept.

"I've always felt that if you cheat your customer, you will lose," says Keil. "We prefer to invest in the quality our customers deserve."

Potbelly doesn't skimp on the materials it uses to build its stores, either. To achieve a certain look, Potbelly will use plaster instead of drywall. It will use real wood instead of fiberboard. The

materials cost a little bit more, but the company feels that the payoff for the customer is worth it. The costs, by the way, aren't passed on to the customer: the sandwiches at Potbelly run \$3.79. Potbelly doesn't buy much advertising to reach consumers and relies heavily on building its business through word of mouth. Even in a new market, Potbelly prefers to employ non-traditional marketing that connects with the consumer on a subtle, more personal level.

"Seeing customers discover Potbelly for the first time is a great thrill," says Selby. "If we are successful, they are a little surprised to get such a great sandwich at such a low price point and be treated so well. At most stores during popular dining times, Potbelly features live, local musicians to entertain diners. It is a unique touch that creates a relaxing atmosphere. Again, it's something that costs the company money — Potbelly spent \$1.5 million on musicians in 2004 — but something that adds to the brand, which is priceless.

"We like to have fun with our concept and create an environment where people can relax and be really comfortable," says Selby.

CUSTOMER LOYALTY

By creating the best store with the best product, Potbelly has created a lot of brand loyalty. Creating that loyalty has also created long lines at lunch time. The line moves fast, with the average wait just a few minutes. The quality of the product is consistent too. Potbelly keeps its menu to just a few items — sandwiches, soups and ice cream — so that it can deliver the best quality possible to its patrons. Among the loyal: Southwest Airlines' pilots and flight attendants who routinely fly through Midway for their Potbelly sandwich.

"We seem to have a very broad appeal," says Jednorowicz. "We have been successful in a diverse array of locations and communities."

Strong urban densities work well for the concept. This was one of the rea-



There may be a line at Potbelly Sandwich Works, but the wait is short and the food is worth it.

sons for Potbelly's expansion to Washington, D.C. In central business districts, there is a strong lunch business 5 days a week. Stores in suburban areas often do better during the evening or weekends.

"We've been fortunate that, to date, we haven't really come across a type of trade area that hasn't worked well for us," says Jednorowicz. "We have proof of concept." **SCB**