
Segmentation at Sticks Kebob Shop

Sticks Kebob Shop, headquartered in Charlottesville, Virginia, had a problem. But it was a good problem to have.

A restaurant chain in a fast-growing segment of the food-service industry, Sticks expected to add about one restaurant to its portfolio every year or two starting in 2014. A sticking point was picking the right markets to enter and then deciding on (and waiting for) the right location.

Since opening its first quick-service restaurant (QSR) in 2001 in Charlottesville, Sticks had added another store in town (**Figure 1**), as well as one in both Richmond, Virginia, and Williamsburg, Virginia. Because Richmond was a larger city, the Sticks executive team—composed of Chris DuBois, Ty Austin, Ingmar Leliveld, and Bill Hamilton—was interested in opening a second location there. They had narrowed their search down to four specific targets, but before selecting the optimal site, the team wanted to gain a better sense of who Sticks' customers were, which location would attract the best customers, and how to best connect with customers.

The restaurant-industry veterans had a rough idea of their customer base from anecdotal evidence. An opportunity to gather survey data to confirm their hypotheses presented itself. Would the demographic and psychographic assumptions they had gathered from talking to people in stores align with the survey answers? And what would the data tell them about where to locate their next store and what marketing channels and messages would be most effective in promoting it?

Figure 1. First Sticks location in Charlottesville.



Second Sticks Location in Charlottesville.



Source: Company photographs.

The Sticks Story

While working at Hamiltons' at First & Main, a fine dining restaurant in Charlottesville, Dubois and Austin realized that they needed a good place to grab a bite to eat before going to work on the night shift. So when Bill Hamilton, who owned the restaurant with his wife, approached the pair about going into business together, they decided to pursue a concept that could deliver a good meal without much fuss. "We went out for some beers and decided we were going to do it," DuBois said. "We had not settled on a concept for the restaurant at the time."¹

The team finally settled on kebobs after kicking around food ideas ranging from BBQ to curry. In 2001, the idea of the fast-casual restaurant—essentially the QSR segment minus traditional fast food—was still in its infancy. Chipotle had just begun to expand outside its home state of Colorado. The team's idea was to offer high-quality, healthy food in a less stuffy environment and to deliver it quickly. According to the Sticks website, they wanted to "create a safe haven for fellow foodies, busy families, and health-conscious diners." It was a niche the team thought Charlottesville lacked, and one they decided that they could satisfy effectively.

The Sticks chain learned a lot about its customer base over the years (e.g., executives had increased their focus on the healthy food angle). But Sticks also made sure that its cuisine remained accessible to a broader audience. Sticks didn't claim to offer authentic Middle Eastern food. For example, instead of using the original term *baba ganouj* for one of its menu items, Sticks called it roasted eggplant salad. (See **Exhibit 1** for a sample menu.)

Planning for Expansion

According to DuBois, Sticks' long-term expansion plan was focused on the I-64 corridor that ran across Virginia. Richmond was the primary immediate target because the brand had already been established there, and a second store would lend efficiencies in marketing, labor, and the like. Beyond that, the company planned to look in Virginia at Newport News, Hampton, Virginia Beach, Norfolk, Harrisonburg, Lynchburg, and Fredericksburg. The eventual goal was to grow from four stores to eight from 2014 to 2020, at which point the company would reassess and consider moving into the Northern Virginia and Washington, DC, areas, which would require a multiple-store launch.

In addition to adding restaurants, Sticks expected to expand in two other ways. It was in the process of launching a packaged version of its signature hummus for sale in retail outlets, and planning to purchase a food trailer to increase its off-site vending, including at an outdoor concert series in Richmond.

The Sticks growth plan had been tempered slightly in the past several years: the Richmond location was growing more slowly than the company would have liked. The restaurant had opened right on the cusp of the 2008 recession and improved sales by about 10% every year, but the baseline had been lower than expected (see **Figure 2** for Sticks location addresses as of 2014).

Figure 2. Sticks locations as of 2014.

Store Name	Address
Preston Avenue, Charlottesville	917 Preston Avenue Charlottesville, VA, 22903
Pantops, Charlottesville	1820 Abbey Road Charlottesville, VA, 22911
Willow Lawn, Richmond	1700 Willow Lawn Dr. Willow Lawn Plaza Richmond, VA, 23221
Courthouse Commons, Williamsburg	5223 Monticello Avenue Williamsburg, VA, 23188

Source: Created by author.

The customer survey was an opportunity to ensure that the next Richmond store was a strong fit with its market. DuBois said the goal was to gather data that could assist in identifying real estate options, improving the team’s knowledge of customer demographics and psychographics, and providing insight into how customers perceived Sticks relative to other restaurants they frequented in terms of value for the money and other attributes.

DuBois and Austin described typical Sticks customers—based on knowledge gained while working as managers in the two Charlottesville stores—as people “in their 30s who have a smartphone and want food that’s both healthful and satisfying.” The base skewed more toward women making dining decisions for their families, but it also did well with single people ranging from their mid-20s to their mid-40s and professionals on their lunch break. More recently, Sticks identified growing interest in its Mediterranean-inspired menu from an older demographic that emphasized an active lifestyle and healthy eating.

“It may sound like a cliché, but a lot of our customers are soccer moms,” DuBois said. “Soccer is a big thing in the area. We have proven to be a good fit for people who are involved in sports—either for themselves or for their kids.”

The Sticks team knew that offering a quick, healthy meal option would be a big part of its appeal when it opened in 2001 but debated about how heavily to market that attribute; they did not want Sticks’ cuisine to be thought of as health food, because most people at the time associated health food with unsatisfying food. The team also wanted to combat the idea that the restaurant was exotic and unfamiliar, so it would appeal to customers who generally selected more familiar options, such as Applebee’s, Arby’s, or Ruby Tuesday.

DuBois and Austin said they consistently heard from customers that they appreciated the variety of the Sticks menu and its filling but nutritious food, well-priced selections, and fast deliveries. Management considered other fast-casual restaurants such as Chipotle and Panera to be competitors, as the restaurant tended to attract most of its customers on weekday afternoons. The volume of visits during nights and weekends was generally lower.

“The challenge is not expecting people to behave in a way you want them to but instead letting them do more of what they already want to do themselves,” Austin said. “We have to remind ourselves to work from and gradually expand people’s given behaviors. We try to keep hurdles low for new customers yet offer enough options for novelty for existing customers.”

The Fast-Food Industry

Fast-casual QSRs typically aimed to deliver food fast but operated outside the traditional fast-food market by offering carefully selected ingredients and healthier options overall. For Sticks, that also meant avoiding being pigeonholed as a health food restaurant and striving to become a national brand, as opposed to being known as a college-town niche store. Sticks wanted its customers to leave the restaurant feeling full and satisfied and as if they had made a smart dining choice.

From 2010 to 2012, the fast-casual industry was one of the fastest-growing segments of the restaurant business, according to *QSR* magazine, and Panera was the clear leader (**Table 1**). According to food industry analyst Technomic, Inc., several other fast-casual restaurants were among the fastest-growing QSRs in the country (**Table 2**).

Table 1. Top 10 fast-casual restaurants.

FAST-CASUAL RANK	CHAIN	2012 SALES (in millions of dollars)	TOTAL UNITS IN 2012	CHANGE IN UNITS FROM 2011
1	Panera	\$3,861.0	1,652	111
2	Chipotle	\$2,731.2	1,410	180
3	Jimmy John's	\$1,262.8	1,560	229
4	Zaxby's	\$979.3	565	25
5	Steak 'N Shake	\$857.5	501	10
6	Qdoba	\$583.2	627	44
7	Jason's Deli	\$578.9	245	10
8	El Pollo Loco	\$563.0	397	3
9	Boston Market	\$559.0	469	(12)
10	Moe's	\$452.0	482	43

Table 2. Fastest-growing QSR chains (more than \$200 million in annual sales).

RANK	CHAIN	2011 US SALES (in thousands of dollars)	2010 US SALES (in thousands of dollars)	% CHANGE	\$ CHANGE (in thousands of dollars)
1	Five Guys	950,630	716,105	32.8	234,525
2	Chipotle	2,260,548	1,831,922	23.4	428,626
3	Jimmy John's	895,000*	735,000*	21.8	160,000
4	Firehouse Subs	284,581	235,000	21.1	49,581
5	Raising Cane's	206,301	174,608	18.2	31,693
6	Little Caesars	1,480,000*	1,253,000*	18.1	227,000
7	Noodles & Company	300,000	261,000	14.9	39,000
8	Wingstop	381,660	332,612	14.7	49,048
9	Chick-Fil-A	4,050,992	3,583,000	13.1	467,992
10	Qdoba	531,000*	475,000*	11.8	56,000

*Technomic estimate.

Sticks also fell into another fast-growing segment of restaurants: ethnic food. Although the Mexican segment was the clear ethnic food leader, DuBois said Mediterranean restaurants were also growing quickly. They were part of a group (specialty fast-casual restaurants) that made up 9% of all fast-casual restaurants (Table 3).

Table 3. Menu composition within the fast-casual segment.

RANK	CATEGORY	MARKET SHARE
1	Mexican	20%
2	Bakery/Café bagel	18%
3	Other sandwich	16%
4	Hamburger	11%
5	Chicken	9%
6	Specialty*	9%
7	Pizza	7%
8	Asian	6%

*Barbecue, healthy, Italian, other ethnic (including Mediterranean), and soup.

Sticks was somewhat unique, however, in that it marketed itself without referring to its ethnicity. The goal of the restaurant’s owners was to make the food as accessible as possible and not intimidate customers. Sticks did not expect to attract the adventurous diner looking for authentic ethnic food; it tried to position itself as menu alternative alongside Panera and Chipotle, rather than local Middle Eastern restaurants.

Still, Austin and DuBois watched the growth of other Mediterranean restaurants closely. They saw a larger chain from Alabama called Zoë’s Kitchen move into Charlottesville and Richmond in 2014, and Taziki’s (also a growing chain from the South) operating a similar concept, also in Richmond. In addition to those, Austin said Roti out of Chicago and Garbanzo out of Denver were other Mediterranean QSR brands worth following—both chains had high-quality management and were well funded. Despite others entering Sticks’ local markets, the team didn’t see the competition as all bad.

“Most importantly, these larger chains help validate the concept for us,” DuBois said. “They also help generate new interest in our category, which is a net benefit. But at the same time, we have to be dynamic and keep creating and emphasizing our unique points of differentiation. We are well aware of direct competition but don’t want that to distract us from succeeding on our own terms.”

Sticks’ Existing Marketing Initiatives

Since it launched in 2001, Sticks had made a concerted effort to better understand its customer base. Over the years, the team changed its message in subtle ways in response to what it had learned by switching from Styrofoam containers to reusable plates and silverware and honing its marketing message.

Sticks had used simple, brand-recognition-focused advertising campaigns in the Charlottesville area to reinforce its existing reputation. In its other markets, it had focused on more extensive campaigns and made product samples available to introduce what it offered to new audiences. Its most extensive television campaign featured animated spots. The advertisements had not shown the restaurant’s food; they were more geared toward general brand recognition, DuBois said. The spots were used extensively on the Charlottesville

broadcast stations, where brand recognition was most powerful for Sticks; however, the team also used the campaign in Richmond and reported some success.

Sticks had also tried to expand its existing customer base through television. The company televised an announcement of a weekend discount on its popular chicken platter and saw a spike in traffic for what was otherwise a slower time of the week.

The team had used print advertisements primarily in the Richmond market, where it was looking to expand. In that city, the team determined that customers enjoyed reading the alternative newspaper *Style Weekly*, which proved to be an inexpensive way to reach a desired audience. Sticks regularly enlisted local marketing experts to fine-tune decisions about how to reach the Richmond audience.

Sticks had found partnerships to be particularly beneficial in Charlottesville both in a community service capacity or the restaurant's ongoing advertising campaign with the University of Virginia (UVA) sports properties. In 2013, the brand was in its second year working with UVA and expanded its campaign on the strength of the first year, which featured coupons in the men's basketball, baseball, and soccer team game programs. Austin and DuBois said they considered the coupons a success, particularly the one offered during the men's basketball team's ACC home games. Also in 2013, Sticks added several UVA women's sports to the campaign.

The impetus behind the partnership with UVA was due largely to the university's own demographic and psychographic breakdown of its audience. Authors determined that UVA's sports fans were particularly active in tennis and golf, dined in various fast-casual restaurants, enjoyed artisanal beverages, and skewed toward higher household incomes. In addition to offering the chance to stay in view of a crowd of people similar to those who Sticks believed to be its customers, the campaign also allowed it to build its brand among UVA students.

"The gravy is to attract students as well," DuBois said. "But our main focus is the family and the long-term local resident, rather than the mostly transient students. We looked at that, and it seems to match up with who we already feel are our loyal core customers, so it lets us serve them better."

DuBois and Austin also said Sticks had considered its two alternative growth strategies, retail sales and off-site vending, to be promising marketing avenues. Finally, Sticks began offering a successful mobile smartphone application that enabled advance ordering and faster pickup in the store in an effort to align it with its technologically savvy base.

Implementing the Survey

Sticks was relatively certain it had a good handle on its customer base—active people making choices for their families and working professionals looking for a quick, healthy lunch—but the team wanted to confirm that hypothesis. So management worked with an outside consultant to prepare and distribute a survey of both customers and noncustomers as follows:

- Create a small but in-depth survey of 5 to 10 existing customers to better inform suggestions for the questionnaires and desired outputs from the study.
- Prepare the customer and noncustomer surveys for distribution.
- Sample 200 existing customers, primarily from the Richmond market, using SurveyMonkey.com.
- Utilize a third-party vendor to sample 200 noncustomers online.

A quick review of the survey (**Exhibit 2**) indicated that many of the hypotheses held by the Sticks executives were upheld. But several of their assumptions proved to be wrong. For the first time Sticks recognized the importance of its white-collar lunch crowd, and where it had once considered other fast-casual chains such as Panera and Chipotle to be rivals, it now saw that it could become part of customers' regular lunch rotation along with those restaurants. Could Sticks focus on building the loyalty of those customers' and making them dinner and weekend customers, as well?

The difficulty for the team was examining its value proposition and customer profile and mapping this data to a demographics-based real estate model. While the data the team had collected certainly lent insight into just who Sticks customers were, would it lead it to picking the correct location for next Sticks Richmond store? Was it even the right data needed to make the decision?