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# Innovation Leads to World's Largest Casual Dining Company

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# Innovation Leads to World's Largest Casual Dining Company

## **Abstract**

The chairman and CEO of Darden Restaurants, Inc. discusses the growth and success of the Red Lobster chain and the founding of the Olive Garden

# Innovation leads to world's largest casual dining company

by Joe R. Lee

*The chairman and CEO of Darden Restaurants, Inc. discusses the growth and success of the Red Lobster chain and the founding of the Olive Garden.*

In 1968 Bill Darden opened the first Red Lobster restaurant. Today Darden Restaurants, Inc. has grown to the largest and most successful full-service restaurant company in the world with over 1,200 units and annual sales of over \$3 billion. There are many reasons for this phenomenal success. Perhaps the most important has been "innovation" – the process of creating, changing and adjusting the business in unique ways to meet consumers' demands. But equally important have been the business values Bill Darden instilled in his organization.

Successful businesses often begin with an innovative idea. Table 1 is a list of the top 10 companies in corporate value in 1976 and in 1996. It is clear that innovation played a key role in the success of many of these businesses. But their long-term success may be more dependent upon their ability to be "continuously innovative" – to constantly change and adjust to meet ever-changing consumer demands, and their ability to create and support successful "teams" capable of making these constant adjustments. This is particularly true in the restaurant business. Table 2 is a list of the top 10 restaurant companies in sales in 1976 and in 1995. Which of these companies have been successful in continually innovating to meet consumer demands?

One restaurant concept on the list that has become recognized around the world is McDonald's. When Ray Crock opened the first



Joe R. Lee

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**Table 1**  
**Top Ten Companies in Corporate Value**

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1976	1996 <sup>1</sup>
1. IBM	1. General Electric
2. AT&T	2. Coca-Cola
3. Exxon	3. Exxon
4. General Motors	4. Intel
5. General Electric	5. Microsoft
6. Sears Roebuck	6. Merck
7. Eastman Kodak	7. Philip Morris
8. Texaco	8. Royal Dutch Shell
9. Amoco	9. IBM
10. Royal Dutch Shell	10. Proctor & Gamble

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<sup>1</sup>Source: COMPUSTAT - U.S. Publicly Traded Companies

McDonald's in a suburb of Chicago, it was a typical "drive-in" of its day. It featured two walk-up order windows and an outside dining area for people who didn't want to eat in their cars. McDonald's, represented by the "Golden Arches," offered a quick, tasty hamburger sandwich for only 15 cents, a unique feature that set it apart from other drive-ins. At the same time, a number of innovations were occurring in the full-service dining arena as well. Howard Johnson's was becoming the first national full-service restaurant chain. It was responsible for a number of innovations, including the use of frozen food products, an efficient distribution system, consistent operating procedures from unit to unit, and national advertising and promotional efforts.

#### **Innovations are key to success**

Both McDonald's and Howard Johnson's were successful in the '60s and '70s because of their initial innovations. But why is one still with us and the other one history? Today McDonald's still sells hamburgers, french fries and milk shakes, and the Golden Arches still represent a top brand. But little else is the same. Gone is the walk-up order window. Gone is the open-air dining area. In their place is a more contemporary building design featuring a fully-enclosed dining room in which you can not only enjoy a hamburger and french fries, but a number of other food items, including breakfast. And many U.S. restaurants now offer an elaborate, indoor playground. Today we accept these changes as "standard operating procedure" for most fast food restaurants.

Obviously McDonald's has been successful in continuously innovating to meet consumers' changing demands. Howard Johnson's

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**Table 2**  
**Top Ten Restaurants**  
**U.S. Company Owned Unit Sales**

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<b>1976</b>	<b>1995<sup>1</sup></b>
1. McDonald's	1. PepsiCo. Restaurants
2. Howard Johnson	2. Darden Restaurants
3. Sambo's	3. McDonald's <sup>2</sup>
4. Denny's	4. Flagstar Restaurants
5. Gino's	5. Wendy's
6. Pizza Hut	6. Family Restaurants
7. Red Lobster	7. Brinker Intl.
8. Friendly	8. Imasco Restaurants
9. Morrison	9. Metromedia Restaurants
10. Ponderosa	10. Morrison Restaurants

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<sup>1</sup>Source: Technomic - U.S. Publicly Traded Companies.

<sup>2</sup>Many companies also have franchise sales. When these are included, McDonald's moves to number one.

restaurants, on the other hand, are history. Consumers passed them by in favor of more innovative concepts that were more successful in meeting their needs.

In the early '70s Red Lobster was beginning to roll out across the country. When it was first introduced, Red Lobster was truly an innovation, but the innovation of the concept began many years earlier. When Bill Darden, the founder of Red Lobster, was 19 years old, he opened his first restaurant in Waycross, Georgia. It was a 25 by 30 foot lunch counter he named The Green Frog. It featured "Service With a Hop." So right from the start Darden focused on "service" as the key to his success. And he *was* successful, so successful that he enlarged and remodeled The Green Frog many times over the years. By the 1960s, he owned and operated a number of restaurants throughout the Southeast, including a Howard Johnson's franchise. In 1963 he purchased Gary's Duck Inn in Orlando, and began experimenting with a no-frills seafood concept.

In 1968 Darden put together a hand-picked team of restaurant operators and opened the first Red Lobster in Lakeland, Florida. The new company's goals were to provide guests with "Quality, Value and Service." And Darden made it clear the priorities were "Guests, Employees and Investors." General Mills was so impressed with Bill Darden's new company, they acquired it.

### **Red Lobster expands in '70s**

By the early '70s Red Lobster was opening restaurants throughout the Southeast. The first restaurants were very plain buildings, with

no windows and very little exterior treatment. The distinctive sign advertised that cocktails were available, as many full-service restaurants did not offer cocktails at that time. Dining rooms were very plain by today's standards, with tile floors, painted walls, and one big open room with lots of tables and chairs and booths around the perimeter. Servers wore uniforms, and service was fast and efficient. The menu featured hearty seafood at a great price. Many diners preferred their seafood fried in those days, and Red Lobster's hush puppies could be considered an early "signature item." Families were welcomed with high chairs and a 59-cent child's plate.

By 1978 Red Lobster had grown to 236 units with sales of \$291 million, and the Red Lobster team had already begun the tradition of continuous innovation. The buildings were dressed up with more trim and exterior features to make them more visually appealing, and the sign had been simplified. Dining rooms were remodeled, including carpeting, live plants, wood paneled walls and nautical prints, and servers wore new uniforms. Paper placemats were added to dress up the appearance of the table and meals were served on new plateware. Garnishes were improved and a garden salad was offered in addition to cole slaw.

By 1985 Red Lobster was operating 372 units with sales of \$834 million. In response to changing consumer preferences, the design team created a restaurant exterior with a brighter, more contemporary look set off by blue awnings. Windows were added to let more light into the restaurant, and a new logo was introduced. The blue and gray color scheme on the outside was carried through to the inside. Fresh fish boards were added, along with authentic nautical artifacts and a colorful new uniform. The menu placed more emphasis on the "freshness" of the seafood. Garlic bread began replacing hush puppies, and fresh steamed vegetables were added. Garnishes were also upgraded as more emphasis was placed on "plate appearance."

By 1991 Red Lobster had 568 units with sales of over a billion and a half dollars. New architectural designs were tested featuring a more rustic, dockside feeling. The menu featured colorful graphics, as well as color photography of promotional items and a fresh fish panel. Fresh-baked garlic-cheese bread was introduced, and it was an immediate success. Dining rooms received a major remodeling to bring them into the '90s with a lighter, fresher feeling.

Red Lobster currently operates 650 units. Most restaurants have been remodeled to the new "wharfside" look, which has a warm, energetic feeling and has received higher test scores from guests than any other remodel in Red Lobster's history. Accompanying the new wharfside look is a new logo. The "wharfside" feeling is carried through on the menus, and a variety of new preparations are being offered.

### **Support mechanisms also feature innovation**

Over the past 29 years Red Lobster has demonstrated continuous innovation. It has successfully moved from a no-frills restaurant serving mostly fried entrees to a wharfside dining experience featuring a variety of food preparations. This was accomplished by a team of highly qualified, dedicated employees focused on meeting the ever-changing demands of the dining-out public. But there were also numerous innovations guests never saw, but were critical to the success of the company. These were innovations in the organization that supports the restaurants.

One of the most significant innovations for Red Lobster was in the area of seafood supply. Seafood is a unique commodity in many respects. For the most part, it is "hunted" in the wild rather than "grown" in a pasture, and it is extremely fragile and requires special handling at each step from the boat to the table. In the early '70s it became apparent that the company needed to secure a consistent supply of quality seafood at the best possible prices. The cost of seafood was rising dramatically and, unfortunately, has continued to rise ever since.

Rather than working through seafood brokers, the decision was made to go directly to seafood processors throughout the world. The purchasing team traveled world wide, negotiating long-term contracts to ensure a consistent supply of seafood. The company has continued to work closely with many processors for years, holding seminars focused on quality improvements. The results have helped both parties be more successful.

Red Lobster was also one of the first companies to fund experiments in aquaculture. The company's willingness to devote resources and commit to large purchases led to successful shrimp farming ventures throughout the world today.

Establishing a good seafood supply was important, but just as important was the ability to distribute it to restaurants throughout the country. At first Red Lobster had its own fleet of trucks, but today the company contracts the distribution of products from a number of regional warehouses. And to ensure the quality of the fresh fish going to restaurants, it is air-shipped overnight from processing plants specializing in certain species. Today Red Lobster is the largest overnight shipper of fresh fish in the world.

### **Quality assurance lab is established**

The company knew that a great purchasing and distribution system would be of little value if the quality of the product was not maintained. To ensure the quality of the products coming in the back door, a quality assurance lab was established to test products at different points in the processing and distribution system. A team of quality

assurance inspectors also visit processing plants, warehouses and restaurants on a regular basis. Restaurant managers and employees also conduct numerous quality checks in the receiving and preparation of seafood in the restaurants.

As Red Lobster grew, so did the need to know what was going on in the restaurants on a daily basis. In the early '70s a joint venture was formed and a multi-functional team was assembled to develop what would become one of the first point-of-sale systems with daily polling capability. By the mid-'70s these MANEX terminals were being placed in all company restaurants, and polled nightly from the corporate offices to get up-to-date sales and payroll information.

In the mid-'80s personal computers in managers' offices in each restaurant assisted with labor scheduling, employee records and other management functions. They also featured an electronic mail function which allows paperless communications to and from each location. And the latest development is a touch screen point-of-sale system that has been customized to meet Red Lobster's needs.

Growth for Darden Restaurants has not always been smooth and easy. Like General Motors' experience with the Corvair, a few new business ventures didn't quite meet expectations. The Corvair came close ... and so did a Darden concept called Hannahan's, which was introduced in the mid '70s. Like the Corvair, it may have been a little ahead of its time and, in this case, it was not as well designed as it might have been. The concept featured a good bar long before Quincy's and Ryan's, but it was placed in too small a building.

### **Olive Garden debuts in '80s**

In the early '80s a specialized team of employees developed what would become a real winner. The Olive Garden was the first full-service Italian restaurant chain. It has spawned many imitators, but remains the largest and most successful by a wide margin. The "signature" salad and breadsticks continue to be a favorite with guests throughout the country, and "Hospitaliano!," the Olive Garden's brand of guest service, set a new standard in the full-service chain restaurant industry. Just as Red Lobster brought seafood to millions of Americans, the Olive Garden continues to bring hearty Italian food to diners across North America with 477 units.

Along the way other innovations were also tried. The Red Lobster Seafood Express was a fast food concept in the lobby of a metropolitan office building. It met with limited success. At the other end of the spectrum, the fine dining arena was tested with The Fishery, which featured an upscale, but casual interior and great seafood preparations. But it failed to meet expectations. Exhibition cooking areas were tested in Red Lobster dining rooms, featuring mesquite grills, but research showed that guests didn't really like the idea.



In June 1995 General Mills spun off all restaurant operations and a new publicly-held company was formed. Darden Restaurants, Inc., named after Red Lobster founder Bill Darden, is traded on the New York Stock Exchange and continues to be a dominant force in the full-service restaurant category. Darden Restaurants wants to be the first choice for customers when they dine out, the preferred employer in the restaurant industry, a superior long-term financial performer for shareholders, and responsible citizens contributing to their communities. Darden's goal is to be the best company in the casual dining industry, now and for generations.

In February 1996 Darden's newest concept, Bahama Breeze, opened its first restaurant in Orlando. It is proving to be very popular with guests and is exceeding company expectations. Additional units are planned.

Darden Restaurants has come a long way from the first Red Lobster restaurant in Lakeland, Florida. Table 2 shows that Darden is now the number two restaurant company in sales, and is the largest full-service restaurant company in the world. And, what about the top 10 companies in corporate value in 1976? Where are they today? Table 1 shows that only four remain in the top 10, and they have been joined by some international companies that weren't even on the scene 20 years ago.

In 1963 Thomas J. Watson, Jr., former chairman of IBM, said: "Of the 25 largest U.S. industrial corporations in 1900, only two remain ... the rest have failed, been merged out of existence, or simply fallen in size. Figures like these help to remind us that corporations are expendable and that success — at best — is an impermanent achievement which can always slip out of hand." His statement proved to be very prophetic for IBM.

Why do some companies continue to be successful while others fail? One reason is their ability to continuously innovate to meet changing consumer demands and thereby ensure their future success. Another reason is their people. At Darden Restaurants a plaque in every building serves as a constant reminder of how important people are to the company's success:

I am convinced that the only edge we have on our competition is the quality of our employees as reflected each day by the job they do.

*William B. Darden  
January 1968*

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**Joe R. Lee** is Chairman and CEO of Darden Restaurants, Inc.