

MUTUAL FUNDS  
Dirty Little Secrets

A \$17 Billion  
Napster Hangover

Hooters!  
A Case Study

# FORTUNE

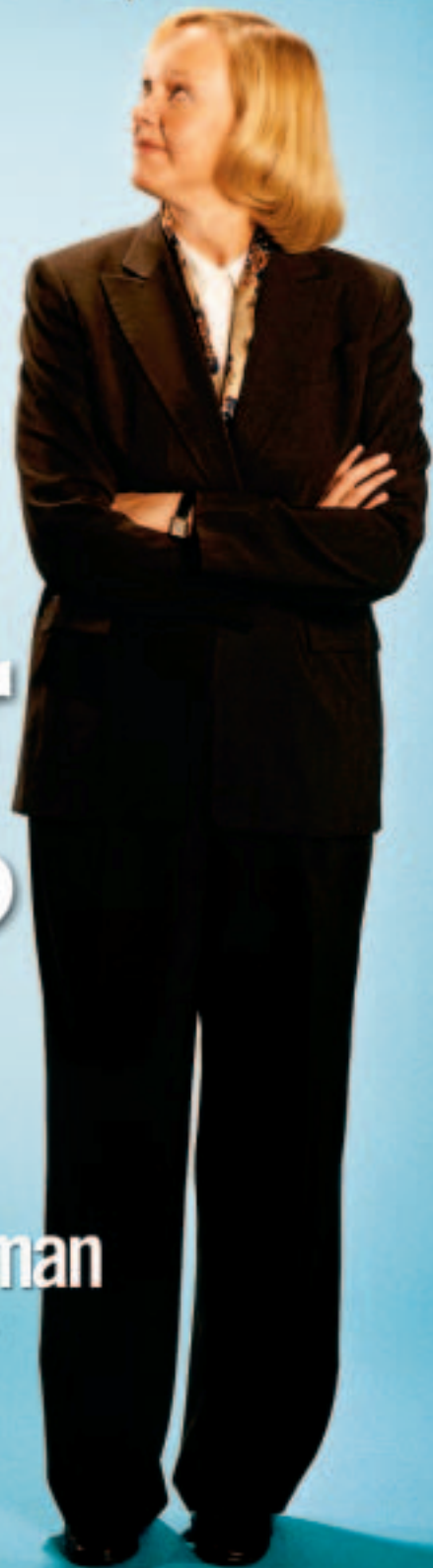
SEPTEMBER 1, 2003

# 100

# Fastest Growing Companies



**eBay is No. 8**  
An inside  
look at how  
**Meg Whitman**  
is driving this  
unstoppable  
growth  
machine



“This thing has incredible legs,” an early investor said. Twenty years later, the restaurant chain has finally hit its stride.

by John Helyar

# Hooters: A case study

SOME CORPORATE SLOGANS SPEAK TO IMPROVING THE human condition (DuPont: “Better things for better living through chemistry”). Some speak to elevating human relations (Hallmark: “When you care enough to send the very best.”) And then there’s the Hooters restaurant chain, which cheerfully admits to no higher calling than lowbrow pleasure: “Delightfully tacky, yet unrefined.”

So how on earth, in such a politically correct age, in such a failure-prone business, could Hooters have reached age 20 and still be busting out all over? From a single Florida beach bar, Hooters has expanded to 342 locations (27 of them, ahem, abroad), four lines of retail food, one golf tour, and two car-racing circuits (stock and drag). If you laid out the 30 million pounds of Hooters wings served each year, they'd encircle the globe at the equator. If you piled up the 15,000 current Hooters Girls ... well, they'd really be stacked.

Even the sky is no longer the limit: Hooters Air started flying in March. It provides service from Newark, N.J., Baltimore, and Atlanta to Myrtle Beach, S.C. Painted in the corporate colors of orange and white, the four 112-seat jets are airborne billboards, with the trademark Hooters owl roosting on their tails. Two Hooters Girls are aboard each flight, emceeding trivia games, hawkling Hooters merchandise, and on the whole acting a lot perkier than flight attendants on other airlines who've just taken 20% pay cuts.

Is this any way to run an airline? Well, considering that many experienced operators are trying to recover from record-breaking losses, Hooters could hardly do worse. But then Hooters Air is more about building the brand than becoming a serious player in aviation. Hooters' flights of fancy have already brought in reams of free publicity. "You're here, aren't you?" notes Bob Brooks, the man who has sent Hooters soaring.

We are at one of his restaurants in Atlanta, sitting amid a swirl of Hooters Girls serving the lunchtime crowd. Brooks hardly seems to notice them. There have been 200,000 Hooters Girls over the years, after all—and the chairman of Hooters of America is no Hugh Hefner. Brooks, 66, is a Methodist family man who grew up on a South Carolina tobacco farm and today lives in a modest home in Myrtle Beach (that, and the area's golf attractions, explain the Hooters hub). His voice is so quiet it's hard to hear in the midday din. But he is no pushover. He has fought diabetes, overcome a stroke, and endured the death of a son, Mark, in a plane crash that also took the life of Alan Kulwicki, a Hooters-sponsored NASCAR driver. He has a simple view of the restaurant business: "Good food, cold beer, and pretty girls never go out of style," says Brooks, who sees great augmentation in Hooters' future. It is already America's tenth-largest full-service restaurant chain, with 2003 revenues estimated at \$750 million, and Brooks thinks the country can support 1,000 Hooters.

That may be stretching it as much as a Hooters Girl's tank top, says Chicago restaurant consultant Ron Paul. The only two comparable chains that have more than 800 locations (Applebee's and Chili's) draw a large number of women and families. Hooters' relies on 25- to 54-year-old males, who account for 70% of business. On the other hand, "nobody's trying to do what they do," Paul says. "It allows them to stand out in a crowded field."

THE HISTORY OF HOOTERS HAS MORE curves and swerves than one of its waitresses wending her way across a crowded

room—and is considerably less appealing. For years Brooks and the founders of Hooters fought over everything from menu items to whether Lycra was part of the Hooters ethos. For all the acrimony, which ended in 2001, everyone agrees that Hooters began with a beach bar in Clearwater, Fla., in October 1983. They also agree that the ball got rolling when a restaurant executive named Hugh Connerty wandered in one night in 1984.

The six friends who launched Hooters were not seeking to create an American icon. They were a bunch of fun-loving Midwestern transplants who wanted to create their kind of place and who scraped together \$140,000 to do it. Three were tradesmen—L.D. Stewart, a painting contractor; Ken Wimmer, his partner; and Dennis Johnson, a brick mason. The others were Ed Droste, a real-estate executive; Gil DiGiannantonio, a liquor salesman; and William Ranieri, a retired service station owner who went by "Uncle Billy" because he was a good 30 years older than his thirtysomething partners. The six didn't know much about

**The secret to Hooters' success is simple:  
"Good food, cold beer, and pretty girls  
never go out of style."**

the restaurant business, but they knew what they liked: finger food, girls, and golden oldies on the jukebox.

Connerty was in Florida scouting locations for a steak house chain he'd started, Colorado Joe's, but he abruptly changed plans after a night at Hooters. The place was lots of fun and, he thought, had loads of potential. He would give the six co-founders \$50,000; they would continue to own the trademark and get 3 cents on every dollar the Hooters Girls brought in. They would also keep the rights to build more Hooters locations in a six-county area of Tampa Bay. (They later added the Chicago metro territory.) For his \$50,000, Connerty got the right to build Hooters everywhere else in the U.S. He was required to stay faithful to every aspect of the original, right down to the secret wing sauce.

The deal was very much in the early Hooters spirit: Originally drafted on a napkin and considered over pitchers, it was sealed days after Connerty proposed it. Beginning in 1985, he took Hooters to other Florida cities and then to other Southeastern markets. But it was soon clear that he had more vision than capital. So Connerty approached Bob Brooks, a business acquaintance, for loans. Brooks was rich, and he knew the restaurant business because some of the big chains bought from his food-service company, Naturally Fresh. He was also tough. In 1988, Brooks called the notes, and when Connerty couldn't pay, took over the Hooters development rights. Connerty's consolation prize: ownership of Hooters restaurants in Jacksonville and Tallahassee. (He no longer owns them and today has no connection with Hooters.)

Brooks' takeover stabilized one end of the business but unsettled relations with the founders. There was Hooters Inc. in Clearwater, the corporate entity owned and run by the original







**IN THE EARLY DAYS**, running Hooters was a laughing matter. The original Hooters Six (from left) L.D. Stewart, Dennis Johnson, "Uncle Billy" Ranieri, Gil DiGiannantonio, Ed Droste, and Ken Wimmer. Lynne Austin (right) is another original: She was the first to grace a Hooters billboard.

had the right of first refusal to buy Stewart's shares. In 1995 a Florida judge blocked the sale of Stewart's stake. The five got back the stock and retained control of Hooters Inc. (Now estranged from the group, Stewart couldn't be reached for comment.) But nothing was resolved.

That same year the combatants set aside their differences long enough to fight a common enemy. The Equal Employment Opportunity Commission, a U.S. federal agency, filed a complaint against Hooters, charging its exclusive employment of women as waitresses discriminated against men. It was a potential calamity. As president Rick Akam testified in a court proceeding, "The guiding principle of the system has always been vicarious sexual entertainment to customers." In 1995 the chain counterattacked. It dressed up a restaurant manager named Vince in a Hooters Girl outfit and, complete with blond wig and five o'clock shadow, substituted him for Lynne Austin on billboards and ads bearing their anti-EEOC message, WASHINGTON, GET A GRIP! It staged a Hooters Girl March on Washington and aired its case at a National Press Club briefing. The era of good feelings did not last: When the EEOC eventually dropped the matter, Hooters of America produced a T-shirt saying SHE SURVIVES! Hooters Inc. declared the T-shirts a license violation and demand that sales cease. It was back to infighting as usual.

In 1998 the co-founders went to federal court, alleging that Brooks had committed various license violations. By then the hostilities were taking a toll on the business. For instance, a TV show called *Hooters Movie of the Weak* (lame movies interspersed with comedy sketches) was syndicated on stations in 13

major markets—but it was pulled from the air when the Brooks camp challenged its legality. The turmoil at the top slowed the pace of expansion, as franchisees were leery of investing in such a poisoned atmosphere.

But then a funny thing happened on the way to Armageddon. The Hooters Inc. crowd in Clearwater began to develop more respect for the Hooters of America crowd in Atlanta. "There was friendship despite all the fighting,"

says Droste, "and we had to hand it to Bob Brooks. He put his money where his mouth was."

It was his idea, for example, to make a splash in sports, the second-biggest interest of the Hooters core clientele. In 1992,



Brooks sponsored Alan Kulwicki, who won the Winston Cup as NASCAR's top driver that year. In 1995, Brooks dropped NASCAR to run his own series, the Hooters ProCup stock-car races, and in the same year he added the Hooters minor-league golf circuit. Every time a Hooters tour alum breaks through to win a bigtime tournament—as Ben Curtis did most recently at the British Open—Hooters gets free publicity.

By the new millennium, the spirit of détente was taking root. At the end of a day's legal wranglings, the warring factions would go out to dinner together. In 2001, as part of a settlement of the federal litigation, the founders sold Brooks the Hooters trademark for \$60 million. They retained the rights to the Tampa Bay and Chicago territories, plus Manhattan. Hooters Inc. also has the rights to develop a Hooters hotel and casino in Las Vegas and to take Hooters to Hollywood. (Ed Droste is working on *Hooters: The Movie*.) Hooters of America has domain over the rest, giving it the control it has coveted.

With the outbreak of peace, Hooters has picked up the pace, adding 38 restaurants last year and 16 already in 2003, about twice the rate of the late 1990s. And Hooters Air may be only the beginning when it comes to Hooters line extensions. Is the world ready for a Hooters cable channel? That's on Brooks' drawing board now. The Methodist from Myrtle Beach may not be as wacky as the Hooters Six, but he seems to have gotten the hang of delightfully tacky. **F**