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Red Lobster Aims To Address Value Gap With Remodels, New Menu

NEW YORK -(Dow Jones)- Darden Restaurants Inc.'s ([DRI](#)) Red Lobster is spending close to \$350 million to remodel all of its roughly 700 locations, hoping that updates to the buildings, decor and lighting will help improve the seafood chain's value in the eyes of guests.

The renovations will be carried out over the next four years, potentially fixing over the long-term what has been perceived as lackluster value at Red Lobster, whose prices of around \$19.50 per person didn't match up to the dated decor.

Thus far, remodeled Red Lobster locations are seeing same-store sales lifts of 4% to 5%, results that "more than hurdles" internal goals, Kim Lopdrup, president of the chain, said in a recent interview

More immediately, Red Lobster plans to introduce a new menu this month that adds more entrees priced around \$15, such as pecan-crusting jumbo shrimp, to address the value gap. The chain has found the \$15 price to be a sweet spot for guests.

"We worked very hard to expand the things we offer at that price range," said Salli Setta, Red Lobster's [executive vice president of marketing](#).

Red Lobster, founded in 1968, has never remodeled its entire fleet of stores at once. That put it at a disadvantage in recent years, as consumers didn't feel the prices they were paying were a good value for what they were getting.

The gap between the food and decor was expounded as Red Lobster upgraded the quality of the food, adding options like "Wood Fire Grilled" food that gave the impression of a fresher seafood. Lopdrup said that improving the food preceded the remodel because it didn't want renovated stores to attract consumers to the same dining experience.

The remodel [costs](#) about \$350,000 per store, while other maintenance work can add up to \$150,000 to each project, Lopdrup said. The new design, called Bar Harbor, gets inspiration from New England, a region with which people associate the chain. The outside includes a stone-paneled tower and new signage with the tagline "Fresh Fish. Live Lobster."

About 17% of the Red Lobster's have been remodeled so far, and Darden plans to remodel up to 100 in its current fiscal year that ends in May. The program should accelerate from there, and be completed sometime in fiscal 2014.

"The aggregate benefits related to improved brand perception could ultimately prove much greater once the entire base is updated," R.W. Baird analyst David Tarantino said in a recent research note.

Red Lobster has been the laggard among Darden's three large restaurant brands, with same-store sales gains elusive as Olive Garden and LongHorn Steakhouse improve. Red Lobster's same-store sales fell 1.7% in Darden's latest quarter, compared to gains of 2.2% at LongHorn and 2.7% at Olive Garden. Red Lobster's decline was startling as it came on top of a 7.9% same-store sales decrease the prior year.

Despite Red Lobster's struggles, Darden's [shares](#) have been up this year on broad rally among casual-dining chains based on improving trends. Darden shares were recently trading at \$46.37, up more than 32% this year.

Other chains have made a bigger move into seafood, with Ruby Tuesday Inc. (RT) notably trying to go after some of the market by offering deals like steak-and-lobster dinner for \$13.99 on Tuesdays. Lopdrup said that the chain isn't "seeing much evidence that any competitors are having a significant impact on our [business](#)."