

FUND SURVEY
Our Top 10 | 76 Best Buys

WALL STREETERS VS. THE VATICAN
FIGHTING FOR FINANCIAL CONTROL

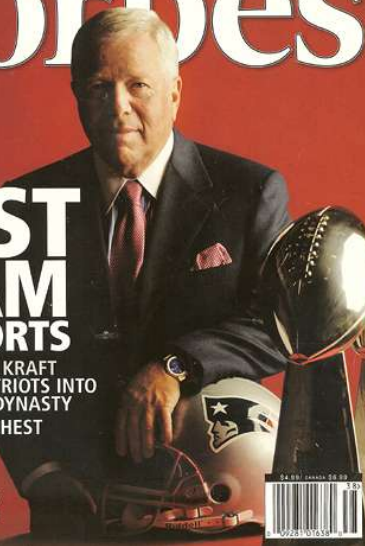
SEPTEMBER 19, 2005 | WWW.FORBES.COM

Forbes

THE BEST TEAM IN SPORTS

HOW ROBERT KRAFT
BUILT THE PATRIOTS INTO
A FOOTBALL DYNASTY
THE NFL'S RICHEST
FRANCHISES

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Entrepreneurs

IT'S 10 P.M. ON A MONDAY IN Cancún, Mexico, and the party at Señor Frog's restaurant and bar is revving up. "Free shots for everyone on the conga line," booms the burly emcee from New Orleans. This, on the heels of a beer-drinking contest that pitted an American against a Canadian and a guy from the U.K. The loser—the Brit—climbs into an enclosed waterslide that snakes along the restaurant's ceiling and sloshes into the lagoon outside.

Just another raucous night at the most successful of Grupo Anderson's 56 restaurants. The group's 14 other Señor Frog's locales in Mexico and the Caribbean also pull in the crowds—mostly young, foreign tourists looking to eat, drink, let loose and commemorate the event with Señor Frog's T shirts. Last year the privately owned parent had operating income (earnings before interest, taxes, depreciation and amortization) of \$21 million on systemwide sales of \$94 million.

Now David Krouham, the architect of most antics and the 45-year-old chief executive of the chain, has embarked on a \$25 million bet to take Mister Frog state-side. In June he opened a restaurant in the Broadway at the Beach entertainment complex in Myrtle Beach, S.C. Next year he plans openings in Honolulu and Las Vegas. "You go to Señor Frog's when you're on vacation, if you want to get crazy and nobody knows you," he says.

This *vida loca* got its start in 1963 from Carlos Anderson, a Mexican entrepreneur and chef. Anderson's restaurant in Mexico City was the kind of place where patrons' neckties were cut off and stapled to the wall along with their business cards. With his partner, Carlos (Charlie) Skipsey, Anderson opened joints at resorts throughout the country, under a variety of names, including Carlos 'n Charlie's and El Shrimp Bucket, all of them fun-loving dining establishments goosed by pitchers of margaritas. It wasn't long before American tourists discovered them. In the early 1970s the Carlos 'n Charlie's in Acapulco

became a hot spot for vacationing Hollywood types; Yanquis waited in line for hours to get in.

Krouham, a Mexico City native with a degree in business administration, joined Grupo Anderson's as a busboy in 1986. He quickly worked his way up to manager. In 1989 the group had just one Señor Frog's restaurant, in Mazatlán. Krouham wanted to convert a struggling Cancún restaurant owned by the group into a Señor Frog's. Carlos Anderson reluctantly gave him the go-ahead but not the money. So Krouham got a \$100,000 loan from Corona beer

maker Grupo Modelo and set to work putting his stamp on the new Señor Frog's. He brought in a Jamaican reggae band, a karaoke system and an emcee to get the crowd up and dancing. He began serving drinks in 16-inch-tall glasses that hold just shy of a quart.

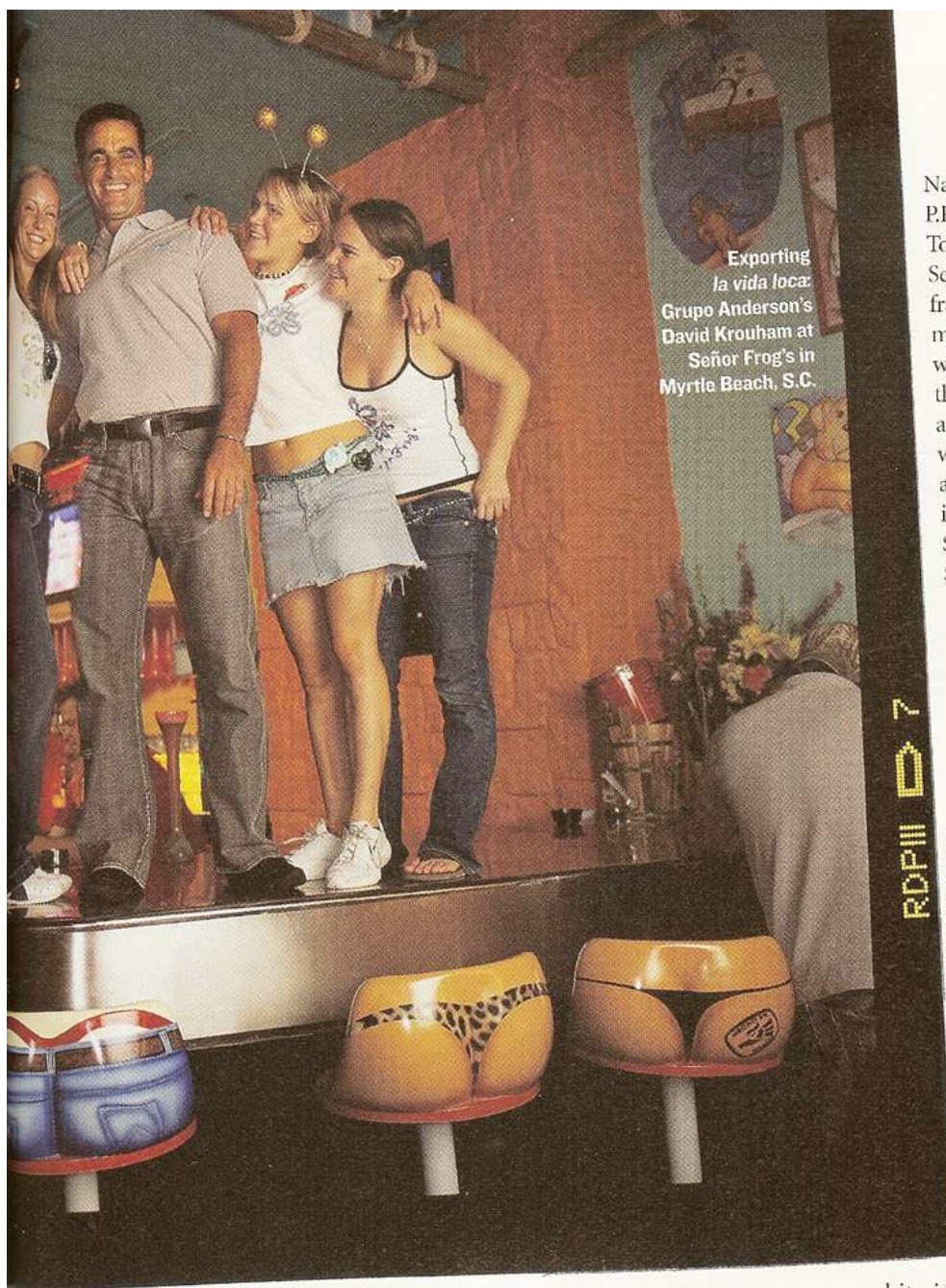
Anderson died in a plane crash in 1990, leaving the group directionless. Skipsey and six partners took over but without much drive to grow. In 1995 Krouham proposed expanding the chain into the U.S., but Skipsey and the partners weren't interested. Instead they offered

BRAND EXPANSION

Fiesta Central

Mexico's largest restaurant chain thrives on party-loving tourists. Can it work up north?
By Kerry A. Dolan





Exporting
la vida loca:
Grupo Anderson's
David Krouham at
Señor Frog's in
Myrtle Beach, S.C.

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Krouham a 60-year contract to run the business so long as Krouham gave them 25% of the royalties he charged his prospective franchisees. Grupo Anderson's handles the legal battles every time someone tries to open a nonlicensed Señor Frog's.

This odd arrangement required the creation of an operating company, Operadora Anderson's, to oversee the restaurants and train management. It's owned by 16 investors, all employees of Grupo Anderson's, including Krouham, who has a 25% stake. Operadora charges each

restaurant a one-time \$75,000 franchise fee, plus a 6% cut of annual revenues. Some Operadora partners also own stakes in the franchisees.

Franchising got off to a rocky start. Forays by Señor Frog's and Carlos 'n Charlie's in Guatemala, Costa Rica and Panama fizzled. "There was no competition, but not enough business, either," Krouham sighs. One of the restaurants brought in just \$700,000 a year. Within three years he terminated the deals.

The real money came from trapping U.S. vacationers in places like Aruba,

Nassau, the Bahamas and San Juan, P.R.—where the cruise ships stopped. To ensure quality, Krouham awarded Señor Frog's and Carlos 'n Charlie's franchises only to existing restaurant managers, then spent several weeks working with them. That's helped the Caribbean units pull in an average of \$5 million in annual revenues, which, in turn, have boosted Operadora Anderson's results: Last year it netted \$900,000 on revenue of \$5.3 million, up from \$200,000 on \$1.2 million in sales in 2000.

Señor Frog's in Puerto Rico has proved a decent training ground for U.S. laws, customs and costs. Because beer-drinking contests aren't allowed in some states, there are activities like chicken-dance contests for kids during the early evening and electric-slide dances later on at night. Krouham's managers have to be more concerned about issues like sexual harassment, liability insurance and job contracts. When Krouham asked a waiter at the San Juan Señor Frog's to empty an ashtray, the server told him it wasn't in his job description. So Krouham had that language added into U.S. contracts, as well as a requirement that the waitstaff sing and dance.

Because higher alcohol and payroll costs in the U.S. will bite into margins, Krouham must be inventive with expenses. Furniture and kitchen equipment will be made in Mexico, at about one-third the price of buying them here, and shipped north. T-shirts and other Señor Frog's paraphernalia come into the U.S. duty-free from south of the border. That should help squeeze better returns from the average check: \$33, compared with \$22 at the Hard Rock Cafe.

Sam B. Rovit, a partner at Bain & Co., offers a caution: "Companies routinely underestimate how hard it is to take an existing business model and ship it overseas." Booze and food are tricky. But how tough can it be to import fun? **F**