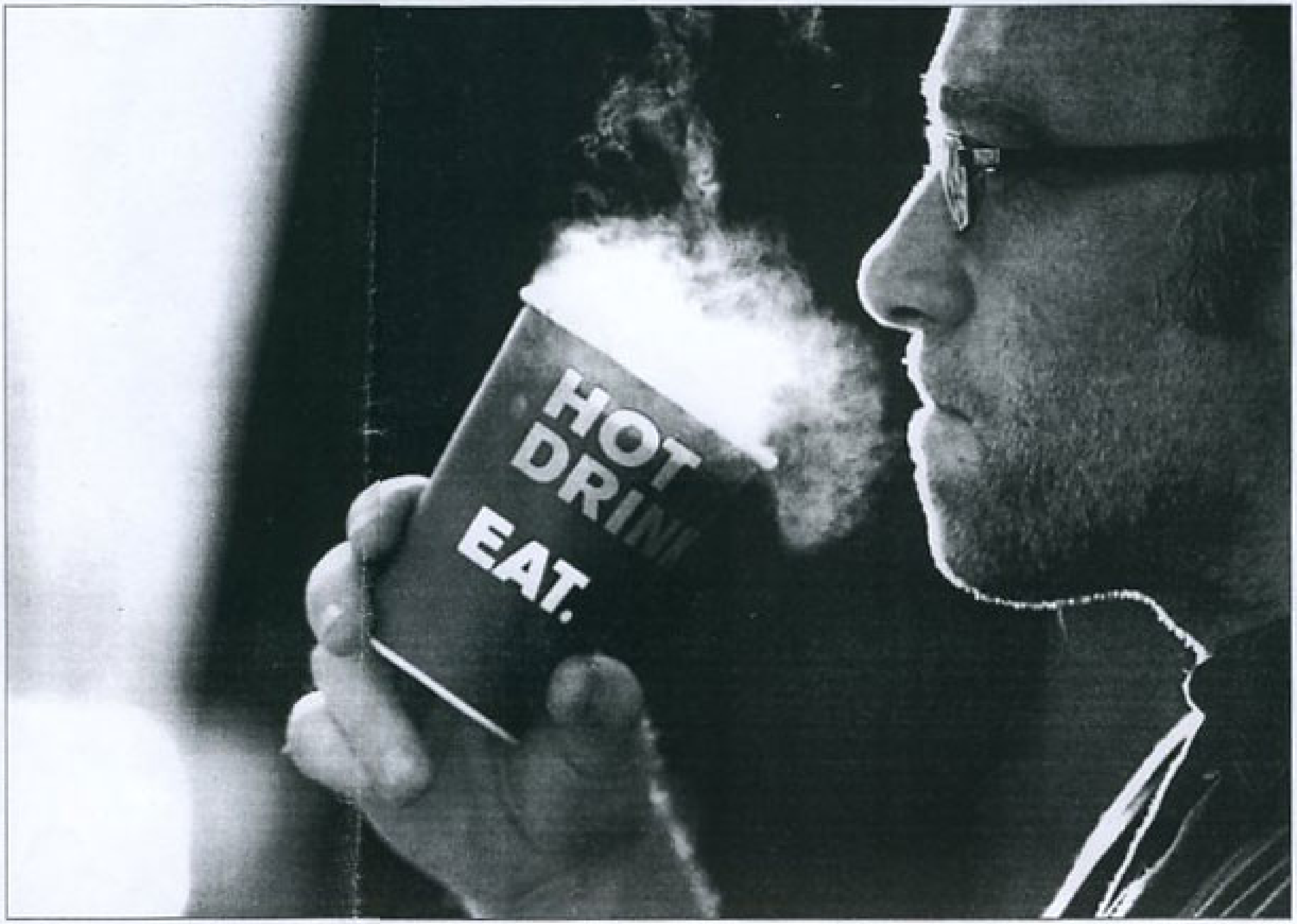
FOOD RETAILING

Sandwich man has an appetite for spreading

Niall MacArthur, the founder of Eat, tells **Caroline Phillips** about his ambitions to expand his 26-strong chain beyond its base in London



The cup that cheers: Niall MacArthur has bold plans to expand the Eat chain of sandwich shops that he founded with his wife Faith Charlie Bibby

Seven years ago Niall MacArthur, managing director of Eat, was working in a sandwich bar. Now he wants a bigger slice of the market dominated in the UK by Pret a Manger. And while Pret reported a £20m annual loss last year after stumbling in its efforts to grow overseas, Mr MacArthur has just raised £8m of bank debt to finance the Eat chain's expansion.

The Eat chain employs 450 people, has 26 shops – just one outside London, in Birmingham's Bullring development – and will generate revenue this financial year of about £23m. Like-for-like sales for November were up 15 per cent year on year, says Mr MacArthur. Eat is expanding at the rate of one shop a month, with the aim of adding 25 in two years.

At Eat in Regent Street, the surroundings are simple and modern with lots of wood, tiles and comfortable benches. People are ordering soup, pies, sushi, salads and sandwiches from 12 varieties of bread. Does he offer anything for the Atkins diet? "No!" groans Mr MacArthur. "We offer delicious, fresh, healthy food, not fads."

He looks exhausted. His objectives in the past year were to hire a world-class retail director (he appointed Colin Hughes, formerly at Pret and Marks and Spencer), build a property pipeline (he has 15 shops at various stages of negotiation for his expansion plan), raise debt to pay for it all (hence the £8m) and open his first branch outside London.

Mr MacArthur is responsible for property acquisition, and obtaining the right sites against stiff competition is critical to the company's success. "The property market has cooled significantly over the last year and I'd expect this to continue as it tends to lag the stock market," says Eat's 44-year-old founder. "This makes site acquisition easier, plus the strength and success of the brand increasingly attracts landlords to us.

"Birmingham answered all our questions about our ability to trade outside London. 'Will the brand be recognised? Are the price points OK? Can we recruit and train staff from here? Can we manage a store and supply the food from here?' The answer is Yes. Now we're set to infill Manchester to London with Eat."

Mr MacArthur, son of Ian MacArthur, a former vice-chairman of the Scottish Conservative party, hails from Perthshire. He read English at Cambridge, where he dismissed the notion of a corporate career. He decided to start his own business. "But the last quantitative work I'd done was maths O-level."

He took an MBA at City University Business School, then became an investment banker at Bankers Trust – "an interesting diversion that lasted 13 years". During this period he met Faith, his Canadian wife *cum* design guru, chef, co-founder and brand director of Eat. At the time she was designing jewellery in Los Angeles.

At 36, he left Bankers Trust and went travelling, ending up in a coffee shop in Vancouver where the idea for Eat was born. "It struck me that this was a business we hadn't yet seen in the UK which was highly branded, quality-led and service-led," he says. "Somebody told me 97 per cent of new catering companies fail within a year and I thought, 'Yes! This is what I want to do!' "

Starting the company in a totally unknown market was tough. He and Faith spent six months researching the concept and competition. "We were recruiting for a shop that didn't exist and for an unbuilt kitchen, creating a brand from scratch, developing our product range and packaging and coming up with a shop design to support our core brand values."

Their sector is vibrant – sandwiches are the fastest-growing part of the fast-food market and sales in Britain this year are forecast by Mintel to exceed £3.5bn. Eat's main competition is Pret (with 132 stores) and the less expensive Benjy's, which is attempting to move upmarket. When Eat started out, Pret enjoyed a quasi-monopolistic position. To differentiate itself, Eat decided to use a central kitchen, rather than preparing all the food in the individual stores.

"The best place to root a brand distinction is in the product itself. We chose to provide our own fresh, hand-made food, made by us in our own kitchen every day and delivered to our stores with a one-day shelf life," says Mr MacArthur. "As a result of this brand decision, we had to build a large, central kitchen to prepare our food – which gave us our business model. The first kitchen we built could service eight shops. So we had a critical-mass model. We were always working to a gruelling schedule of shop openings to cover our huge fixed central cost."

The MacArthurs invested a lot of their own money, built a kitchen in a derelict warehouse in south London and got going quickly: the company was incorporated in June 1996; the first shop opened in Villiers Street, London, on October 12.

By the time the fifth shop opened in 1998, Eat was on the map. It had been named Sandwich Bar of the Year and then Sandwich Bar Chain of the Year. In 1999 3i, the venture capital group, put up £5m in exchange for a 44 per cent stake.

"It was a wrench to part with a stake in the company. But it gave us the critical mass and cash flow to raise debt from banks, back the roll-out expansion and move to a bigger kitchen in Wembley with a capacity to accommodate 50-plus shops," says Mr MacArthur. Now, once again, he has to find the stores for his enlarged central kitchen to service.

He will not be drawn on whether he faces increased competition as Pret reduces its overseas expansion and concentrates more on the UK, although Pret's wobble has probably provided Eat with an opportunity to establish itself and grow.

"I'm keen on expansion and diversifying our store portfolio, to make us less vulnerable to any concentration of exposure, whether to office workers, shoppers, tourists or geography," he says. "Inside a couple of years we'll have 50 shops employing 1,000 people and turning over £45m."

CHAIN CAREFULLY CONTROLS ITS INGREDIENTS

Niall MacArthur says the growth of Eat has relied on a combination of factors including brand vision, emphasis on quality, great people and keen cost control.

- He decided that Eat could differentiate itself most effectively by building a central kitchen to supply its outlets with food to be sold that day, rather than making it at each site.
- This allows additions and changes to the range to be made quickly and uniformly. Some 50 new products hit the shelves last year.
- He says he has had to be realistic about the costs to deliver this and to raise enough money to invest in the brand, product, premises and people. Finding enough good properties to be used as outlets served by his central kitchen is critical.
- Success depends on the people. Underhiring is a serious problem in a small, growing company.
- Having said that, the management team is kept small, to protect against a downturn. Costs are tightly controlled throughout the company. Prices are deliberately competitive and geared to subsistence rather than discretionary expenditure. Eat generates revenue by attracting customers, not by increasing margins.

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