

Chapter 6

Entrepreneurship in the Experience Economy: The Evolution of the Hard Rock Café

Stephen V. Horner
Todd H. Chiles
Long W. “Rico” Lam

INTRODUCTION

The Hard Rock Café was founded in 1971 in London by two American expatriates, Isaac Tigrett and Peter Morton. Their original intent was to fill a need not being met by London dining establishments and to have fun doing it. The Hard Rock Café became a reflection not only of the founders' passion for burgers, beer, and rock and roll music, but it grew to represent, first, a generation of rock and roll fans and, eventually, an entire culture of fad, fashion, and music. “Hard Rock,” according to one of its corporate executives, “has always been and will continue to be music-centric.” “The core of Hard Rock is its restaurants.”¹ Gradually becoming a “cool” place to “see and be seen” while in London, the restaurant grew in popularity as a result. Although most restaurants up to that time had offered some type of theme to enhance the dining experience, Hard Rock was the first to combine food, theme, and merchandise in a unified setting. The distinctive U.S.-style menu of burgers and beer, the sounds of rock and roll continually blaring through the restaurant's public address (PA) system, and the location-based T-shirts reminiscent of rock concert memorabilia were all representative of a unique and growing popular culture. This revolutionary way of embedding a broader social context into a restaurant offering defined Hard Rock as a hyper-themed restaurant, and the nature and uniqueness of

The Global Enterprise: Entrepreneurship and Value Creation

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doi:10.1300/5811_08

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its rock and roll theme allowed the idea to grow uncontested as it gained worldwide notoriety for its unabashed adventurousness as well as for its signature logo-emblazoned T-shirts.

Twenty years after its inception, Hard Rock encountered its first real competitor when Robert Earl, the former general manager of Hard Rock Café International, started a similar chain called Planet Hollywood. The entry of a major competitor in this new business arena ignited a period of intense competition. An “eatertainment” bandwagon began to roll; new competitors and more players increased rivalry based on every type of theme imaginable. Competition was fueled by outside investors interested in capturing a portion of the wealth created by the hyper-themed restaurant segment. Principal among them was Wall Street, which provided much of the huge investment required for start up. In a few short years, however, the novelty of these restaurants wore off, and the industry shakeout that followed left far fewer players. Hard Rock Café, however, withstood the industry instability during this period and continued to grow. Exhibit 6.1 shows major events in Hard Rock’s history and in the development of hyper-themed restaurants.

Although Tigrett and Morton enjoyed incredible success for their first ten years, their personal and business relationships became increasingly strained. They eventually dissolved the partnership and began to expand their own Hard Rock empires in different parts of the world. The continued success of the restaurants caught the attention of the corporate world, and acquisition of Tigrett’s Hard Rock restaurants began an era of corporate growth of the concept under the direction of Rank Group PLC, a multi-divisional company that continues to this day as Hard Rock’s parent.

As business researchers stress (Hitt, Ireland, Camp, & Sexton, 2001), entrepreneurship and strategy must be ongoing to create and maintain a business’s value. The entrepreneurial actions Tigrett and Morton took and the strategic intent that emerged at their successful London start-up did not end there. To this day, Hard Rock’s corporate strategists must continually seek opportunities for creating value through the extension of the original concept into new areas, marshal the necessary resources to make it happen on a global basis, and articulate the company’s strategic direction. As a start-up, Hard Rock satisfied an unmet need among London dining establishments for American-style cuisine, an immediately successful market niche. Moreover, the founders extracted additional value from the original concept through less obvious opportunities. For example, T-shirt sales, begun initially to distract diners waiting in line, now account for nearly 50 percent of Hard Rock’s revenues. The loud rock and roll music that is now characteristic of the café’s atmosphere was the result of Tigrett and Morton’s efforts to reduce the amount of time customers spent at the table talking

EXHIBIT 6.1. Major Events in the History of Hard Rock Café and the Hyper-Theme Segment

1971

- Hard Rock Café founded in London by Isaac Tigrett and Peter Morton

1978

- Nick Bitove opens Hard Rock Toronto

1982

- Tigrett and Morton split Hard Rock in two
- Morton opens Hard Rock in Los Angeles

1983

- IPO for Hard Rock Café International

1984

- Tigrett opens Hard Rock in New York City

1987

- Tigrett sells Hard Rock Café International to Pleasurama
- Robert Earl becomes head of Hard Rock Café International

1988

- Mecca Leisure buys Pleasurama including Hard Rock Café International

1990

- Hard Rock opens in Orlando, Florida
- Rank buys Mecca including Hard Rock Café International

1991

- Earl opens Planet Hollywood

1992

- Dick Clark's American Bandstand Grill opens

1993

- Art Levitt named CEO Hard Rock Café International

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(continued)

- Tigrett opens House of Blues
- Harley Davidson Café opens

1994

- Rain Forest Café opens in Mall of America
- Jekyll & Hyde and Dive! open

1996

- Planet Hollywood's IPO is most actively traded in NASDAQ history
- Fashion Café and Nascar Café open
- Jim Berk appointed Hard Rock CEO and acquires Hard Rock America and Hard Rock Canada

1998

- Planet Hollywood files for bankruptcy

2001

- Peter Beaudrault appointed Hard Rock CEO

2003

- Rank removes Beaudrault as Hard Rock CEO
- Rank CEO Mike Smith named interim Hard Rock CEO

after their meal. The collection of rock memorabilia that has become the signature of Hard Rock's décor grew out of one popular rock musician's attempt to reserve his seat in the London café. These examples show how Hard Rock's founders, beyond their initial strategic intent of serving burgers and beer to Londoners, continually discovered and exploited opportunities for increasing the value of the Hard Rock idea, out of which emerged a strategy of serving American-style food in a carnival-like atmosphere. Hard Rock's environment has changed considerably since its early days, and the available opportunities for creating value have changed as well. "The restaurant market for Hard Rock Cafés is saturated,"² according to one vice president at Hard Rock's corporate headquarters. Extension of the Hard Rock brand into resort hotels, gambling casinos, experiential museums, and live music are a result of the continual search for opportunities by the leaders at the Hard Rock Café who followed the café's founders. These

changes have led to an articulation of strategic direction as the premier dining and entertainment establishment in the industry.³

Those who succeeded Tigrett and Morton developed Hard Rock into a global phenomenon by creating an organizational context conducive to the continual discovery and exploitation of opportunities. Although Tigrett and Morton were able to run Hard Rock as a joint partnership for eleven years and as largely independent businesses for another five and fourteen years, respectively, Hard Rock eventually became one of several divisions under the diversified corporate ownership of Rank. How Hard Rock fares in the twenty-first century could turn on how its current and future owners choose to organize the concept. One possibility is that Hard Rock will continue as part of Rank's current portfolio of themed restaurants, gaming, and film processing and video production. However, the changing environment in which Hard Rock operates could eventually lead to its spin-off as a stand-alone company, potentially altering the organizational context in which entrepreneurial action takes place.

This entrepreneurial challenge within a corporate context continues to face Mike Smith, CEO of Rank Group and acting CEO of its Hard Rock unit. According to the authors of *The Experience Economy*, customers increasingly demand more than mere provision of goods and services; they seek companies that are able to create truly meaningful experiences for them (Pine & Gilmore, 1998). In the twenty-first-century experience economy, Hard Rock's continued success will require its CEO to act as organizational architect, corporate strategist, and enterprising entrepreneur to keep the concept fresh and the experience meaningful, generating new customers while bringing back the existing ones for more.

HISTORY OF THE HARD ROCK CAFÉ

Isaac Tigrett and Peter Morton met shortly after Morton opened The Great American Disaster in 1970, a London restaurant featuring American-style hamburgers. Together they envisioned a new restaurant serving the same type of U.S. malt shop cuisine but featuring rock and roll music, of which both were devoted fans. For the two founders, the motivation for such a restaurant concept was both entrepreneurial and social; they were committed to making money while having fun doing it. Tigrett's initial motivation besides the music was to meet women ("Interview with Isaac Tigrett," 1998). So with somewhat modest expectations of a personal and business nature, the two partners opened their new restaurant in London's Mayfair district at the corner of Old Park Lane and Piccadilly with \$5,000

each of their own money and a \$150,000 loan from a Lichtenstein bank arranged by a family friend (Martin, 1996a,b). They called it the Hard Rock Café after their favorite style of music.

The Hard Rock became a success rather quickly, and long queues of diners hungry for burgers, beer, and rock and roll music became a typical sight along Old Park Lane. The cuisine was a marked contrast to the more traditional fare offered by other dining establishments in the Mayfair district. According to Morton, the dining experience itself also provided a “certain irreverence” (Bartlett, 1994) that must have been enticing to normally more reserved Londoners.

From the very start, Tigrett and Morton sought to authentically represent popular culture rooted in hard rock music. For example, the Hard Rock logo, a replica of an electric guitar, was designed by Alan Aldridge, who had been a graphic designer for a number of rock musicians including the Beatles (“Interview with Isaac Tigrett,” 1998). Such care and detail were typical of the way Tigrett and Morton sought to embed rock and roll culture into the dining experience, and much of the concept’s development was similarly purposeful.

Other aspects of the Hard Rock concept developed gradually. For example, the restaurant’s walls were not initially covered with rock memorabilia, as the director of marketing for Hard Rock Café International explained. During one of his frequent visits to the London restaurant, Eric Clapton left a guitar to mark the spot where he liked to sit. Peter Townsend of “The Who,” also a frequent visitor, later sent a guitar in an apparent attempt at one-upsmanship. Both guitars ended up on the restaurant wall, and the practice snowballed after that (Travel Channel, 2002). Hard Rock’s presentation of rock memorabilia continues to grow. Early in 2003, in Orlando, Florida, Hard Rock opened the Hard Rock Vault, an experiential museum of rock memorabilia. According to one Hard Rock executive “many of the displayed items will be very unique and will not rotate throughout the chain but will likely stay at the Vault. Among the collectibles will be Elvis’s guitar that he used in his 1968 comeback and Jim Morrison’s leather pants, which he wore a lot.”⁴

The loud rock and roll music that is now a signature of Hard Rock Cafés was also not part of the original concept. Plagued by low table turnover, Tigrett and Morton turned up the volume to induce customers to linger less while dining. Loud music meant less dinner conversation, and the restaurant began to see an increase in the number of customers served daily (Covell, 1996).

Stories about the Hard Rock and its association with celebrities began to develop, creating a mystique about the place. The café began to attract

former Beatles, the Rolling Stones, and members of Led Zeppelin (who reportedly smashed whiskey bottles against the wall on one occasion). It also attracted members of high society, such as the Duke of Westminster (Covell, 1996; Martin, 1996a). In 1977, a hit song by Carole King proclaimed that “You know that door is always open at the Hard Rock Café,” extolling the restaurant’s combination of food and fun and fanning the flames of celebrity mystique. In fact, the business required little advertising, relying more on word of mouth, especially that of tourists who took home stories of their Hard Rock experiences.

In addition to stories, tourists also began to take home Hard Rock souvenirs. Fueled by collector behavior, the T-shirts emblazoned with the Hard Rock logo that Tigrett and Morton offered to diners waiting in line soon became a hot fashion item and began to contribute a significant portion to sales and profits. Today, as much as 50 percent of revenues comes from merchandise sales (Covell, 1996). However, the two partners always attempted to stay focused on the primary business—high quality, American food served in a carnival-like atmosphere, a combination of food, entertainment, and merchandise that came to define the Hard Rock Café.

Although taken for granted now, the Hard Rock concept was revolutionary in the 1970s and 1980s, described as “baby fresh” by one Hard Rock executive in the company’s in-house publication *The Hard Rocker Report* (Giles, 1991, p. 15). However, such freshness inevitably faded for regular customers. To be successful, Tigrett and Morton needed a constant influx of new customers. Such dependence on new customers is unusual for a restaurant, which normally relies on a core of local, repeat customers supplemented by transient trade.

As a result, the Hard Rock began to depend on tourism to fuel its growth, which, coupled with the restaurant’s phenomenal success, exerted fairly intense pressure on the partners to expand geographically. They resisted, though, remaining content to develop the concept at its London location. Tigrett and Morton made a conscious decision not to overcommercialize their product. Rather, they chose to focus on the single London location, and it gradually became a cultural icon (Bartlett, 1994). Thus, with the exception of the Toronto location opened in 1978 by Nick Bitove, a member of a prominent Canadian family that operated food service and hospitality companies in Canada, the Hard Rock concept did not expand during the first ten years of the company’s existence.

During this time, the differences between the two partners, which had initially been complementary, became a source of contention. Tigrett experienced a number of changes in his personal life, including a religious conversion that profoundly affected his business philosophy, diverging from

Morton's "business-first" approach. Morton returned to the United States in 1979, initiating a long separation between the two partners during which they carried on continual personal and legal disputes over rights to the Hard Rock name and their respective geographical territories (Bartlett, 1994; Covell, 1996).

In 1982, the disputes came to a climax in Tigrett's hometown of Memphis, Tennessee. As the partners met over a glass of champagne at the historic Peabody Hotel, Morton suggested they walk two blocks to the Mississippi River, where he then proposed that the river serve as the boundary for their geographic territories (Bartlett, 1994). Although there were exceptions to the line of demarcation (Morton got rights to Chicago and Tigrett to Dallas), they eventually agreed on the Mississippi River as the dividing line. Morton's Hard Rock became Hard Rock America and Tigrett's became Hard Rock Café International, although they continued to share rights to the Hard Rock name through joint ownership in the Hard Rock Licensing Corporation (Covell, 1996; Martin, 1996a). Later that year, Morton sold his interest in the London Hard Rock for \$800,000 (Martin, 1996a).

With the issue of geographic rights settled, the two men began separate, parallel expansion of their respective Hard Rock Cafés. Morton was the first following the split to open a Hard Rock. He chose Los Angeles in 1982 with the financial backing of several film and music celebrities whose support was important to the successful importation of the Hard Rock to the United States. Although the Hard Rock was a representation of U.S. pop culture, it had been developed and targeted at London residents and tourists. Importing the idea into its context of origin—the United States—presented some unique challenges, and the support of well-known personalities from the film and music industries provided needed legitimacy.

Tigrett also began expanding Hard Rock Café International and in 1983 offered 25 percent of his company to the public for \$1 million (Martin, 1996a). Although Morton was the first to open a U.S. Hard Rock, Tigrett appeared to make the bigger splash when he opened his first U.S. Hard Rock in New York City in 1984. Touted by critics as the purest incarnation of the Hard Rock concept to date, the restaurant had the world's first guitar-shaped bar and the largest collection yet of rock memorabilia. A "God Wall" paying tribute to major inspirational influences of the rock era included a picture of Tigrett's Hindu spiritual master, a giant Krugerrand, and a large replica of a Quaalude (Covell, 1996). Expansion by the two former partners continued with Morton opening a San Francisco location in 1984 and Tigrett opening in Stockholm in 1985 and in Dallas, the largest Hard Rock to date, in 1986.

In 1987, Tigrett left the Hard Rock, selling his 54 percent stake in Hard Rock Café International to a British conglomerate represented by its

American head of operations Robert Earl. The \$108 million deal netted Tigrett roughly \$30 million. He then withdrew from business and went to India. The Hard Rock concept still had two separate owners, but now Hard Rock Café International was part of a business conglomerate whose corporate philosophy of financial management and control introduced a different tone to the idea's development.

Earl began an aggressive expansion of Hard Rock Café International. He opened a Hard Rock in Orlando, Florida, in 1990, and the restaurant immediately began serving 5,000 customers per day (Covell, 1996). The New York restaurant became one of the city's biggest tourist attractions, second only to the Empire State Building and attracting more tourists than the Statue of Liberty (Giles, 1991). Under Earl's direction from 1987 until 1992, Hard Rock Café International grew from seven units in three countries to twenty-two units in thirteen countries (Covell, 1996). Earl continued as head of Hard Rock Café International until he left in 1992 to run his own hyper-themed restaurant, Planet Hollywood.

Earl was succeeded by Art Levitt, a former Disney executive. In 1996, Levitt was succeeded by Jim Berk, who purchased Morton's Hard Rock America for \$410 million as well as Hard Rock Canada, bringing all fifty-eight Hard Rock Cafés under Rank's corporate control at the Hard Rock Café International headquarters in Orlando (Bohner, 1996). Ownership of all Hard Rock operations under one corporate umbrella facilitated extension of the brand into other concepts (Martin, 1996b) such as hotels, casinos, and live music venues. In 1999, Berk left Hard Rock Café International to run Fairfield Properties and was succeeded by Peter Beaudrault who served as president and COO until his appointment as CEO in 2001. He continued as Hard Rock's CEO until March 2003.

THE FOUNDERS OF THE HARD ROCK CAFÉ

Isaac Tigrett

Isaac Tigrett, the son of a wealthy Tennessee financier John Burton Tigrett, was fifteen when his family moved to England. After attending private school in Lugano, Switzerland, he returned to England where he began exporting vintage Rolls-Royces and Bentleys to customers in the United States (Covell, 1996). While in London, he met Peter Morton, who had just opened The Great American Disaster. On the heels of the success of Morton's restaurant, the two made plans to open the London Hard Rock Café.

Tigrett's impulsiveness and flamboyance at first complemented Morton's more reserved personality. A self-described "raving Marxist" (p. 227),

Tigrett had an eccentric and quirky personal style that was at the core of many of the wild stories surrounding the early days of the Hard Rock. One such story has Tigrett taking the microphone of the restaurant's PA system following a devastating bombing by the Irish Republican Army and announcing that anyone with an Irish passport could eat and drink free (Covell, 1996). In 1974, the one-time Marxist changed the direction of his personal life and converted to Hinduism, adopting Sai Baba as his spiritual adviser. In 1976, he moved in with Maureen Starkey, ex-wife of the Beatle Ringo Starr, and in 1989 they were married. The changes in Tigrett's personal life seemed to strain his relationship with Morton, who returned to the United States in 1979. Although the two were still partners in an extremely successful venture, they experienced increasing conflict over their respective property rights. In 1982, these differences culminated in their Memphis meeting and the geographical division of the Hard Rock Cafés.

Over the next two years, Tigrett made plans for the expansion of Hard Rock Café International. With financial backing from such celebrities as Yul Brynner and Dan Aykroyd, he opened the New York City Hard Rock. He opened several more locations in ensuing years, including Dallas and Stockholm, but began to feel increasingly disenchanted with the direction the Hard Rock concept was taking. After selling his ownership stake in Hard Rock Café International, Tigrett moved to India to learn more from his spiritual master, Sai Baba, but returned to the West in the early 1990s to found the House of Blues restaurant chain. He now serves as chair emeritus, while current management expands the restaurant chain and extends the brand into culture by creating a variety of entertainment media and venues. Among these is the syndicated radio show House of Blues Radio Hour hosted by Dan Aykroyd in his fictional role as blues-legend Elwood Blues.

Peter Morton

Like his Hard Rock partner, Peter Morton was twenty-two years old when the two opened the London Hard Rock Café. The scion of a wealthy and well-known Chicago restaurant family, Morton learned his trade at Morton's, his grandfather's restaurant on Lake Shore Drive (Martin, 1996a). He went to London in 1969 after earning a business degree from the University of Denver. Originally intending a postgraduate lark before taking a waiting position with a Wall Street firm, Morton soon perceived a gap in London's restaurant offerings. He felt that no place served a quality hamburger like he remembered in the States, and he saw there was tremendous opportunity for a restaurant offering American-style cuisine (Bartlett, 1994). His first attempt to fill that vacuum was The Great American Disaster.

Following the 1982 dissolution of his partnership with Tigrett, Morton began to expand his Hard Rock America, opening the Los Angeles location later that year. He continued to expand Hard Rock America building on the success of his Los Angeles location. After 1987, Morton and Earl continually feuded over rights to the Hard Rock name, which they owned jointly through the Hard Rock Licensing Corporation. In 1988, Morton attempted to buy the British Hard Rock restaurants that were now owned by Earl's parent company (Park, 1988) but failed to consummate the deal. Morton later sued Earl and Hard Rock Café International's parent company over Earl's alleged misappropriation of the Hard Rock concept in creating Planet Hollywood. Morton won the case out of court for a large, but undisclosed, sum. Morton continued to expand his Hard Rock operation, eventually selling Hard Rock America in 1996 but keeping rights to the Hard Rock name for gambling. In partnership with Harvey Casinos Resorts, he developed the Hard Rock Hotel in Las Vegas but bought Harvey's interest in 1997 after conflict about how to expand the property. Morton continues development of the Hard Rock Hotel in Las Vegas and maintains ownership in Hard Rock Licensing Corporation.

THE LEADERS OF HARD ROCK CAFÉ INTERNATIONAL

Robert Earl

Robert Earl's 1987 purchase of Tigrett's Hard Rock Café International brought the Hard Rock under corporate control. The son of a British pop singer (Covell, 1996), Earl attended Surrey University near London where he studied hotel and catering management (Randall, 1988). He later developed his first entrepreneurial venture in London offering U.S. tour groups themed dining packages that featured medieval-style banquets (Ball, 1991).

The venture gradually grew into a going concern called President Entertainments, whose success attracted the attention of casino and entertainment conglomerate Pleasurama. In 1987, Pleasurama was diversifying into the hotel and restaurant industries to reduce its dependence on the volatile casino business. The company purchased President Entertainments and brought Earl in to spearhead its overseas expansion (*The Times* [London], 1987).

Making Earl president of American operations (Randall, 1988), Pleasurama sent him to Orlando, Florida, where the company owned a string of restaurants. The success of the small string of Hard Rock Cafés attracted Earl's attention as a potential investment for Pleasurama, and in 1987, he arranged Pleasurama's purchase of Tigrett's Hard Rock Café International. The com-

pany that Earl purchased on behalf of Pleasurama consisted of three wholly owned units in London, New York, and Dallas and four franchised units. At that time, 45 percent of profits came from the sale of the signature Hard Rock T-shirts. Earl became general manager of the chain and began formulating his strategy for adding value to the parent company's portfolio of operations. His three-pronged strategy was composed of cost cutting (the charismatic Tigrett had been notably lax about controlling expenses), aggressive expansion, and stronger merchandising of the Hard Rock name. Earl reconfigured the board of directors, and Tigrett's board, which included Dan Aykroyd, resigned without compensation (Randall, 1988).

Although he brought an MBA-oriented strategy to the Hard Rock, Earl expressed commitment to the Hard Rock formula of burgers, beer, rock and roll music, and the growing collection of memorabilia valued by Sotheby's at \$4 million (Randall, 1988). With Earl firmly at the helm of Hard Rock, the purchase repositioned Pleasurama as a diversified hotel, casino, and restaurant company (Randall, 1988), with Hard Rock comprising the core of the restaurant division. Exhibit 6.2 shows how Hard Rock ownership changed through a series of acquisitions over the next few years.

The extent of Pleasurama's acquisitions combined with a slump in general business conditions strained the firm's finances (Milner, 1988; Randall, 1988), exposing Pleasurama itself to acquisition. An offer from Mecca Leisure, a diversified entertainment company, put Pleasurama into play. Mecca's offer came before Hard Rock stockholders had approved its acquisition by Pleasurama, and Mecca chair Michael Guthrie sought to block Pleasurama's purchase. Failing to see any value in the rather quirky string of restaurants, Guthrie saw the Hard Rock Café as "a name and a cult" (Waller, 1998, p. 30) whose uniqueness could not possibly be the basis of brand building. He also opposed Pleasurama's appointment of Earl as head of American expansion, feeling that Earl was primarily a caterer, not a developer (Waller, 1988). In spite of Guthrie's opposition to Hard Rock's inclusion as part of Pleasurama, he nevertheless proceeded to acquire Pleasurama once that firm had completed its acquisition of Hard Rock.

The Hard Rock Café International, newly combined within Mecca Leisure Group, became an acquisition target once again as Rank Organisation PLC sought to acquire Mecca. Owner of Rank Xerox, worldwide producer and distributor of Xerox products outside the Americas, Rank was diversifying into the entertainment and leisure industries to reduce its dependence on the copier business, which had been heavily battered by Japanese competition. In 1990, Rank purchased Mecca Leisure Group Inc., including its Hard Rock chain, which Earl had since expanded from seven to eleven units.

EXHIBIT 6.2. Major Events in the Ownership of Hard Rock Café

1971

- Partnership between Isaac Tigrett and Peter Morton

1978

- Bitove family begins running Hard Rock Canada

1982

- Tigrett and Morton dissolve partnership
- Tigrett keeps Hard Rock Café International; Morton keeps Hard Rock America

1987

- Tigrett sells Hard Rock Café International to Pleasurama

1988

- Mecca Leisure acquires Pleasurama

1990

- Rank acquires Mecca

1996

- Rank acquires Morton's Hard Rock America and Bitove's Hard Rock Canada

Earl continued as general manager of Hard Rock, eventually growing the chain to twenty-two units before he left Rank in 1992 to pursue his own interests (Covell, 1996). Having tripled the number of Hard Rock Cafés since his acquisition of Tigrett's operation, Earl was thoroughly familiar with the Hard Rock formula (*Wall Street Journal*, 1994). In 1991, he opened a hyper-themed restaurant of his own in New York City called Planet Hollywood. Although "carefully designed" to avoid similarity with the Hard Rock (Covell, 1996, p. 229), the formula of the movie-based theme nevertheless bore a strong resemblance to Hard Rock's formula. For a period of time during 1991 and 1992, Earl was actually in control of both Hard Rock Café International and Planet Hollywood. Later in 1992, Earl left Rank to devote his full energies to developing his Planet Hollywood concept.

Art Levitt

Art Levitt, the son of former SEC chair Arthur Levitt, came to Hard Rock Café International in January 1993 from The Walt Disney Company, where he was vice president of resorts and special projects. Levitt continued Hard Rock's geographic expansion and extended the concept to a broader range of themes and music styles. During his tenure at Hard Rock, Levitt opened twenty new locations in such diverse regions as South America, Asia, Europe, the Middle East, and the United States. In 1994, Levitt opened the Nashville Hard Rock with a ground breaking by country stars Charlie Daniels and Vince Gill. Although Hard Rock cited Nashville's connections with rock though Elvis Presley and Carl Perkins, who both recorded in that city, the opening nevertheless was recognition of the significance of other popular musical forms (*The Commercial Appeal* [Memphis], 1994 p. 3B). From the time of its founding, Hard Rock Café had been clearly identified with rock and roll. However, the increasing proliferation of alternative music styles during the 1990s meant Hard Rock ran the risk of being identified in the public's mind with an ever-narrowing band of the popular music spectrum. The Nashville Hard Rock ground breaking may have been Levitt's attempt to extend the concept beyond rock and roll. Moreover, perhaps as a result of Levitt's background at Disney, new café openings displayed a wider variety of décor themes that seemingly diverged from earlier cafés' clear identification with rock and roll culture. In 1995, Levitt opened a Hard Rock in Myrtle Beach, South Carolina, in a seventy-foot, pyramid-shaped building decorated with sphinxlike statues, gas torches, palm trees, and stone columns with hieroglyphics. A clear departure from Hard Rock's usual rock and roll based décor, the café presented a mystique and spirituality that Levitt asserted tied fans of music together across the world (*USA Today*, 1995, p. 1D).

In spite of Levitt's apparent divergence from Hard Rock's original concept, he strengthened the brand by extending it beyond the United Kingdom and the United States into a number of international contexts. His tenure was a time of turbulent growth for Hard Rock, with Morton continuing to run Hard Rock America and the Bitove family running Hard Rock Canada. In addition, Levitt was at the helm during the time that Earl opened Planet Hollywood and a host of other players entered the hyper-themed restaurant segment. Nevertheless, his reorganization of Hard Rock Café International transformed a largely domestic product into a global brand, and Hard Rock became one of the fastest growing divisions of Rank (*The Financial Times* [London], 1995). Levitt left Hard Rock in December 1995 to return to Disney, where he took over responsibility for the development

and launch of location-based entertainment businesses (*PR Newswire*, 1995).

Jim Berk

Jim Berk came to the Hard Rock in 1996 after Art Levitt left his post as CEO. A trumpet player, Berk majored in music at California State University, later earning a master's degree in administrative education at California Lutheran University (Cavre, 1998). At Los Angeles' Alexander Hamilton High School, where enrollment was declining, Berk created a music academy that eventually grew so large that he was made principal of the 2,000-student school. When the Grammy Awards were held in Los Angeles, he organized an all-school event around the awards featuring such artists as film composer Henry Mancini and singer Al Jarreau. News of the school event caught the attention of the National Academy of Recording Artists, who recruited Berk to head marketing for the Grammys. This, in turn, caught the attention of Rank executives who, noting Berk's knowledge of music, persuaded him to take the helm of Hard Rock in 1996 (Cavre, 1998).

Berk took a hands-on approach at Hard Rock, fixing such flaws as poor food quality and reviewing the music play lists (Light & Dawley, 1997). Perhaps such fundamentals had suffered during Levitt's aggressive extension of the Hard Rock concept. In 1996, Berk arranged Rank's purchase of Morton's Hard Rock America as well as Nick Bitove's Hard Rock Canada, bringing the entire chain under the control of Rank (*Canada NewsWire*, 1996), now known within Hard Rock's corporate culture as "unification."⁵ He made plans to open a new Hard Rock each month through the year 2000. He also planned to extend the brand to Hard Rock oldies albums, Hard Rock Live on VH1, and resort hotels, and he began negotiations with the National Basketball Association for a series of NBA-themed restaurants.

Although Robert Earl of Planet Hollywood saw Berk as "unqualified to be a leader in the restaurant industry" (Light & Dawley, 1997), Wall Street apparently approved of his leadership. Merrill Lynch predicted a 1997 increase in operating earnings of 24 percent to \$98 million on \$392 million in revenues. In 1999, Berk left Hard Rock to run time-share company Fairfield Properties (*Business Wire*, 1999) and was succeeded at Hard Rock by second-in-command Peter Beaudrault.

Peter Beaudrault

Peter Beaudrault graduated in 1976 from St. John Fisher College in Rochester, New York, with a degree in business administration and a minor

in law. While in college, he was also the owner/manager of Tavern-On-The-Hudson and Campus II Cocktail Lounge ("Hard Rock Café Corporate," 2002). After college, he worked for TGI Fridays for fourteen years as regional director. Beaudrault went from Friday's to Ground Round, operator of a string of casual dining restaurants. Leaving Ground Round in 1988 as an executive vice president, he joined Hard Rock and held positions as director of operations for the New York and Tokyo locations. He was named COO in 1996 and president in 1999. In February 2001, he was named CEO, a post that had been vacant since the 1999 departure of Berk, and he was later placed on the executive committee of Rank Group PLC. Beaudrault left Hard Rock in March 2003.

HARD ROCK CAFÉ INTERNATIONAL'S CURRENT OPERATIONS

The performance of Hard Rock Café International in the late 1990s (see Figures 6.1 and 6.2) required significant action, and management responded with a number of changes. Rank began refocusing its corporate-level strategy by divesting the movie studios on which the business had been founded in the 1930s (Martin & Salamie, 1996). Hard Rock corporate offices reduced its workforce by 6 percent, and the parent company refocused on its leisure and dining businesses, including a \$50 million upgrade of menu, design, and retail operations at Hard Rock Café International. Management began reconfiguring the cafés with a larger bar area, a stage, and a dance floor. Food and beverage offerings were improved and made more uniform across the chain while allowing for some tailoring to local tastes. In addition, Hard Rock expanded its retail merchandising operations (Byrd, 2001). Increased floor space better allowed customers to browse through merchandise on racks and tables.

According to a Hard Rock corporate executive, one of the challenges facing the company is its public perception: "People don't know what Hard Rock is. They have some knowledge, but they are not sure if Hard Rock is a nightclub, a restaurant, a retail place, or a café."⁶ In 1999, Hard Rock rolled out its first-ever advertising campaign. Slogans such as "relive those moments you can't remember" and "green hair, nose rings, tattoos (and that's just the waitress)" sought to reestablish its position in the public's mind (*Rank Group, PLC Annual Report, 2000*). The ad campaign's success in stimulating increased café traffic induced top management to extend it to other markets in 2000. The company also enhanced its Internet presence by thoroughly upgrading the Hard Rock Web site with improved music links

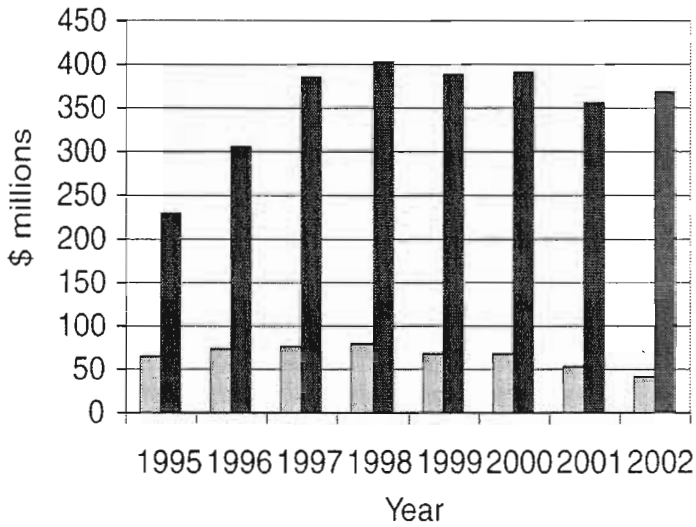


FIGURE 6.1. Sales and Profits for Hard Rock Café International, 1995-2002 (Source: Rank Group PLC Annual Reports [Data were originally reported in British pounds and converted to U.S. dollars using exchange rates provided in the annual reports].)

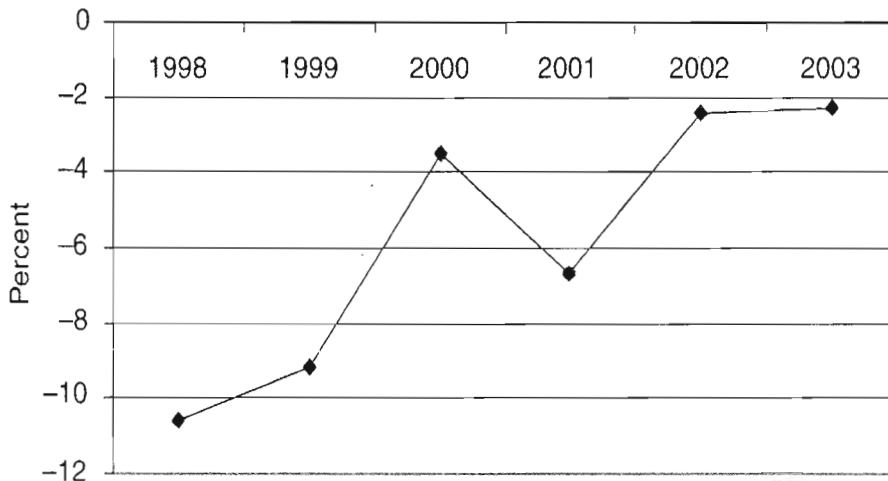


FIGURE 6.2. Same Store Sales for Hard Rock Café International, 1998-2003 (Source: Rank Group PLC Annual Reports [Data refer only to cafés owned by Rank and exclude franchised cafés].)

and online merchandise purchase capabilities, which significantly increased online traffic.

Hard Rock began aggressively extending the brand to other leisure and entertainment activities. Hard Rock Rockfest had proved popular among seventeen- to thirty-year-olds, an important demographic. Held in Atlanta

in 1999, Rockfest drew thirteen bands and an audience of 129,000, and the company made plans to increase audience size by broadcasting future concerts on television. Cafés began featuring local talent in an attempt to attract the late-night (nine to midnight) crowd, a segment of the day that has traditionally been weak. Hard Rock's cable program, "Hard Rock Live," attracted 900,000 viewers weekly in 1999. Hard Rock brand extensions also included its first casinos in London and Manchester and two more casinos in a joint venture with the Seminole Indian Nation (opened in late 2003 and began for full operation in spring 2004). Successful Hard Rock hotel openings in Bali and Orlando encouraged plans for a hotel in Thailand (opened in November 2001). The Hard Rock continues to look for opportunities to extend the brand beyond concerts, TV, casinos, and hotels (*Rank Group, PLC Annual Report, 2000*).

Although Hard Rock performed below expectations in the late 1990s, Rank continued to view the company as key to its future, "the crown jewel of the portfolio."⁷ Beaudrault refocused Hard Rock on its core business by concentrating on its music connections. He terminated the NBA deal and began extending its brand into hotels, casinos, and music venues. Initial results indicated the plan's likely success. Sales for 2000 increased slightly to \$390 million whereas operating income increased slightly as well. Those increases were even more significant because they came during unfavorable market conditions for the hyper-themed restaurant industry segment, according to Beaudrault. However, sales in 2001 decreased to \$355 million, and operating income decreased from \$69 million to \$54 million. In 2002, sales showed an increase in U.S. dollars, but this was due to exchange rate fluctuations between the dollar and the British pound; sales and operating income actually decreased in both 2001 and 2002. Although Beaudrault considered these numbers to be positive in light of the general economy, Rank CEO Mike Smith apparently considered Hard Rock's lower sales a serious problem and dismissed Beaudrault in March 2003 (Jackson, 2003). Hamish Dodds currently serves as interim CEO of the restaurant chain.

Currently, Hard Rock continues to suffer from a lack of tourism, and the company has been promoting more local and repeat business than in the past. Earnings from hotel operations appeared positive for the first half of 2003 (*Rank Interim Report and Accounts, May 9, 2003*). Revenues and operating income for the first half of fiscal year 2003 were \$185 million and \$21 million, respectively, and same store sales for the first half of 2003 were down 2.3 percent. Sales and operating income reported in U.S. dollars were further depressed by a weak dollar with respect to the pound.

INDUSTRY AND COMPETITIVE ENVIRONMENT

Since its creation in 1971 until Earl's opening of Planet Hollywood, the Hard Rock had thrived uncontested in its niche as a hyper-themed restaurant—some considered it to be unreplicable. That notion changed in 1991 when Earl opened Planet Hollywood in New York City, one block from the Hard Rock Café. Based on Hollywood movie themes and featuring movie memorabilia and video segments of famous Hollywood movies, Planet Hollywood became to movies what Hard Rock was to rock and roll. In addition to resembling Hard Rock's concept, Planet Hollywood had its own celebrity investors, among them actors Arnold Schwarzenegger and Bruce Willis, director John Hughes, and producer Keith Barish. Although posting annual net losses, Planet Hollywood soon embarked on an aggressive growth plan backed by the potency of its celebrity investors and Earl's seasoned leadership in expanding the Hard Rock. Suddenly, two hyper-themed restaurants were proving the concept viable, lending legitimacy to the segment and capturing the attention of entrepreneurs and investors alike.

This potential new investment caught the attention of Wall Street investors who "won't roll out their big bucks until they sense the industry has matured to the point it can be predictable" (*Theme Restaurant Report*, August, 1996, p. 7). Planet Hollywood demonstrated that the Hard Rock concept could be replicated, which reduced investor risk. The successful opening of Rainforest Café in 1994 at the Mall of America rather than in a stand-alone unit in a metro/tourist destination provided further evidence that the concept had legs.

Because of the huge up-front costs for these restaurants, Wall Street investment was crucial to segment growth. By 2000, the average hyper-themed restaurant cost \$15 million to open and required massive amounts of working capital. High capital requirements and the possibilities for high return called for organized capital. Wall Street sat up and took notice.

The word is out and investors are pouring big bucks into the theme restaurant industry hoping to be first in on the action. Rainforest's dramatic 680% climb on the stock market got a lot of investors' attention. Then came Planet Hollywood, headed by marketing wizard Robert Earl, who gets attention when he takes a drink of water. And of course, news of Peter Morton selling his portion of Hard Rock for \$410 million on an estimated initial investment of \$18 million made investors even hungrier (and some believe he could have gotten even more based on current p/e ratios). When major consumer publications

like Time Magazine and Gannett News Service report on this sizzling opportunity, investors from coast-to-coast take note. Yes, the word is out! (p. 1)

In 1996, Planet Hollywood raised \$190 million in the most actively traded IPO in NASDAQ history. After more than twenty years in development, hyper-themed restaurants, or eatertainment, became a nascent industry segment backed by the recognition of industry observers and the financial might of Wall Street—and fueled by the growing appetite of consumers for more than simply a meal.

As society has changed, restaurants also have changed from providing just food to combining food and entertainment in an “experience offering.” An experience offering, according to the authors of *The Experience Economy*, is one in which a company “intentionally uses services as the stage, and goods as the props, to engage individual customers in a way that creates a memorable event” for which customers are willing to pay a premium (Pine & Gilmore, 1998, p. 98). Hyper-themed restaurants provide a meal served in a highly themed and entertaining setting so that customers experience not simply the food but the entire event. Customer involvement occurs through a variety of devices in theme delivery, for example, loud music at the Hard Rock, film clips at Planet Hollywood, or simulated thunder at Rainforest Café. Retail merchandise allows the customer to relive the experience long afterward. The inclusion of an experience as part of a more traditional offering of goods and services allows an unlimited variety of possible themes on which to base the experience, and it was this unlimited variety that, in part, drove the proliferation of hyper-themed restaurants.

The spectacular rise of Planet Hollywood and Rainforest Café was accompanied by a series of new entrants, each of which developed a slightly different twist on the original Hard Rock hyper-theme formula of food, entertainment, and merchandise. For example, in 1992, Dick Clark’s American Bandstand Grill opened with a mix of music from classic American bands, trading off the popularity of the *American Bandstand* TV show. In 1992, Isaac Tigrett reappeared to open the House of Blues in Cambridge, Massachusetts, which incorporated blues music and folk art into an entertaining dining experience. The Harley Davidson Café opened in 1993 on 56th Street in New York City, offering actual classic Harley motorcycles, loud music, and the sounds of Harleys revving up throughout dinner. Jekyll and Hyde opened in 1994 with a horror theme that featured restaurant personnel in costume playing roles from classic horror films. Dive!, the creation of film director Steven Spielberg, also opened in 1994, touting a submarine-shaped restaurant that simulated a dive every half hour. Fashion

Café opened in 1996; it featured fashion-inspired décor, including a runway that gave customers the impression that high-fashion models plied their craft there. Nascar Café, capitalizing on the growing popularity of stock car racing, opened in 1996. Limited only by their imagination, entrepreneurs used the hyper-theme formula to differentiate themselves from competitors, increasing the industry's variety.

In addition to type of theme, restaurants adapted the intensity of their theme according to the degree of customer involvement. For example, Hard Rock and Planet Hollywood, where the customer is fairly passive, have a relatively low level of theme intensity. Rainforest Café, where customers' dining experience is punctuated by simulated thunder and the spray of "rain water," shows a moderate level of intensity. Jekyll and Hyde, where employees portray horror film characters in full costume and customer participation is fairly active, displays a relatively high level of theme intensity. Theme intensity has thus emerged as an important entrepreneurial and strategic dimension within the hyper-theme restaurant segment.

Finally, restaurants also innovated on and differed by their location. Hard Rock Café and Planet Hollywood were initially located only in major cities that were well-known as tourist destinations such as London, New York, and Los Angeles. The high volume required to fund the high capital requirements meant that the restaurants needed to be located in heavily touristed areas. This led to clusters of hyper-themed restaurants. For example, one journalist noted: "On a typical Saturday night, barely a subway token's throw from each other along Manhattan's West 57th Street, Hard Rock Café, Planet Hollywood, the Harley Davidson Café, and Jekyll and Hyde create a Mecca for fun seeking tourists and curious locals" (Conan, 1995, p. 22). As such locations became saturated, hyper-themed restaurateurs began to expand into secondary cities such as Dallas and Indianapolis. Continued expansion led to locations in malls, as Rainforest had done, as well as in casinos, hotels, airports, and theme parks. A unique twist to American Bandstand's implementation of the formula was its location in secondary markets such as Indianapolis, Cincinnati, and Kansas City. Some competitors, then, were able to differentiate themselves in the hyper-themed segment by discovering and exploiting new types of locations.

The growth of hyper-themed restaurants across a broad range of theme types, theme intensities, and locations made eatertainment a sizable and widely recognized segment of the restaurant industry. Fueled by an intense desire for explosive growth and profits, more and more competitors jumped on the bandwagon. Eatertainment gained momentum, ignited a competitive frenzy, and drove greater variety into the industry.

By 1997, Planet Hollywood's short-lived profitability was in rapid decline. The following year, the company filed for bankruptcy. This move initiated a major shakeout of the segment during which companies restructured their organizations by halting or dramatically slowing expansion plans, closing low-performing restaurant units, merging with or being acquired by other firms, franchising new and existing units, or exiting the industry entirely. Despite the shakeout, some new hyper-themed chains were established in the late 1990s, albeit at a slower rate than before. The Hard Rock Café was also affected by this shakeout but managed to remain an industry player backed by Rank's continued commitment to extend the brand into other leisure activities.

MANAGING A CULTURAL BRAND

Something that distinguished the early Hard Rock Café from other restaurants was its management of a cultural brand. The entire Hard Rock concept was steeped in the pop culture of hard rock music and musicians, and promoting and extending that culture was the foundation of the founders' early efforts. The emphasis on high-quality American cuisine was at least matched by an emphasis on faithfully representing the hard rock music culture. Allowing customers to experience that through hearing the music, seeing the memorabilia, and wearing the T-shirt introduced more dimensions to the task of managing a restaurant than previously existed in traditional restaurant settings.

Although Hard Rock is considered by most to be the "grandfather" of the hyper-themed restaurant segment (Prewitt, 1998, p. 1), the concept can be traced to earlier restaurants. For example, as early as the 1940s, Victor "Trader Vic" Bergeron concocted a restaurant theme complete with Tiki masks hanging on the walls that "fused decor, design and food in a unifying setting" (p. 1). Indeed, Tigrett credits family visits to Trader Vic's during his childhood with creating his "first mental impression of great consistent quality following a brand, taking on sort of a niche in the marketplace" ("Interview with Isaac Tigrett," 1998). Much later, other restaurant chains such as Victoria Station, Showbiz Pizza, and Chuck E. Cheese also distinguished themselves by creating a unique restaurant offering that combined food, décor, and experience in a unifying theme.

What set Hard Rock apart from chains like these, in addition to greater theme intensity and start-up costs, was its development and management of a *cultural brand*. Indeed, Hard Rock became a reflection of a larger phenomenon that encompassed broad cultural values shared by the global

population. By identifying itself so distinctly, the Hard Rock created a brand that required a special type of management different from any restaurant segment that preceded it. According to Tigrett, corporate mind-sets that focus on stock price and on opening as many outlets as possible demean the logo and diminish the uniqueness and exclusivity of the concept (“Interview with Isaac Tigrett,” 1998).

For Tigrett, successful management of a cultural brand requires approaching the business from a culturist, or anthropological, perspective rather than from a Wall Street perspective and depends on a number of attributes. First, the concept must remain unique in customers’ eyes. The uniqueness and exclusivity of the early Hard Rock locations contributed to its allure (“Interview with Isaac Tigrett,” 1998). Tigrett never believed that there should be as many locations as there are now. In 1996, seventy-six Hard Rock Cafés were operating in seventeen countries; in 2002, 109 Hard Rocks operated in thirty-eight countries. Tigrett never believed that the cafés should be franchised or extended into so many product lines (e.g., hotels, casinos, etc.). Because of industry-wide overexpansion, the novelty and allure of theme restaurants eventually eroded (Prewitt, 1998; Raabe, 1999). As one Planet Hollywood manager explained for his chain: “In the beginning, it was unique. But Planet Hollywood got greedy . . . It became so saturated. They’re here; they’re there. It wasn’t unique anymore. . . . Now there’s no more pizzaz.”⁸ Once hyper-themed restaurants became a product of the masses, they failed to be “cool.” “Theme dining isn’t hip any more,” observed one industry analyst (Ecklein, 1999, p. 12). The very nature of cool is such that once something becomes a product of the masses, cool moves on to something else. Successful management of a cultural brand requires maintaining the uniqueness of the concept. Hard Rock attempts to do this by extending the brand into other concepts such as hotels, casinos, and live music.

Second, managing a cultural brand requires authenticity, which comes from representing the culture faithfully and correctly. One way Hard Rock does this is by authenticating all the rock memorabilia displayed in its restaurant locations. The company warehouse contains more than 70,000 pieces of memorabilia in its archives,⁹ which requires a full-time staff to establish a piece’s authenticity. For example, one musician regularly smashed his guitar during concert tours, although what he smashed was really a replica of his guitar. When Hard Rock obtained one of the replicas, its staff also procured a letter from the star himself attesting that the damaged replica was indeed one that he had smashed during a concert. Authenticity extends beyond the décor to the restaurant experience itself. For ex-

ample, Fantasea Reef builds live aquariums into its walls, and its entrance features the sounds of waves crashing on the shore (Zuber, 1997).

Ultimately, Hard Rock's authenticity grew organically. Initially, Tigrett and Morton simply loved the music and the burgers (Light & Dawley, 1976). The mystique that developed was not the result of intentional design, but rather the conjunction of many unintentional events including, but not limited to, the personalities of the two founders, the demographics of the rock and roll audience, and the carefree nature of the popular culture associated with that musical genre. Hard Rock is the grandfather of hyper-themed restaurants not only because it was the first, but also because it authentically reflected the growth of popular culture and grew and changed as that culture did.

The third element of managing a cultural brand is the management's thorough understanding of the phenomenon it is representing. Tigrett reports that one reason he and Morton took more than ten years before opening the second Hard Rock location was that he had to "work to fully comprehend the depth and breadth of the idea before seeing its great potential" ("Interview with Isaac Tigrett," 1998). Such a long time frame is at odds with the mind-set held by many hyper-themed entrepreneurs pursuing a strategy of growth through rapid expansion. The importance of truly understanding the phenomenon separates the management of a cultural brand from other types of enterprises.

A final element of managing a cultural brand is mastering the concept by successfully implementing it. Brand enhancement comes only from masterful presentation; otherwise, the strength of the concept is diminished ("Interview with Isaac Tigrett," 1998). Hard Rock tends to depend more heavily on its reputation than on more traditional types of advertising, and this reputation stems in large part from the management's doing things exceptionally well. These four elements—uniqueness, authenticity, thorough understanding of the power of the concept, and its masterful implementation—are hallmarks of the cultural brand that distinguish it from more traditional commercial brands. Such distinction requires both an entrepreneurial mind-set and a strategic outlook to recognize and exploit opportunities and to adapt to remain competitive. As the concept enters its fourth decade, these issues loom large for Hard Rock's parent company.

CURRENT ISSUES FACING MANAGEMENT

As Hard Rock Café International continues to dominate the hyper-themed segment of the restaurant industry, management's decisions are

driven by a number of factors. To successfully represent the hard rock pop culture, Hard Rock must continually refine its uniqueness, establish its authenticity, and master the details of a changing culture. The environment for Hard Rock has become considerably more complex since its founding; however, plenty of opportunities for creating value still exist. As CEO of Rank, Hard Rock Café International's corporate parent Mike Smith is singularly faced with identifying and exploiting these opportunities to satisfy customers, and articulating Hard Rock's strategy to inspire its employees and convince its investors.

One option is to continue running Hard Rock as a unit of Rank. The parent company has demonstrated its commitment to extending the Hard Rock concept with its expansion into hotels, casinos, and concerts and its upgrading of existing cafés. Rank has a long history in the entertainment industry, extending back to its founding in 1935, and its portfolio of leisure, entertainment, and hotel businesses has grown steadily since that time. As a diversified company, Rank's strategy has long been to manage a balanced portfolio of businesses, and its success in developing the Hard Rock while divesting itself of other restaurant assets indicates a likely fit of the restaurant operation with Rank's other businesses. Among the reasons Smith gave for the surprise dismissal of Beaudrault was streamlining at the corporate level. Such streamlining could increase efficiency and improve leverage among Rank's three operating divisions (Jackson, 2003), one of which is Hard Rock. As a conglomerate, Rank brings to the Hard Rock a certain degree of corporatism that the founders felt was antithetical to the original concept of managing a cultural brand. Indeed, this corporate mind-set was partially responsible for the demise of Planet Hollywood and many of the other hyper-themed restaurants that failed to survive the shakeout of the mid-1990s, and Hard Rock could be subject to a similar fate. On balance, Hard Rock's inclusion within the Rank portfolio presents a range of risks.

Another option is to sell Rank's interest in Hard Rock Café International either to another firm or to an investor-led buyer group. Such a move would free Hard Rock from the sometimes-stringent financial controls and bureaucratic costs imposed by parent companies on corporate divisions. Rank has always given its division managers broad latitude. "Rank has never forced anything on Hard Rock," says one Hard Rock executive. "They have been a very good parent especially during the recent tough times."¹⁰ However, the changing competitive environment, uncertainty over short-term business conditions, and increasing pressure on operating margins, especially in light of the effect of the terrorist attack of September 11, 2001, on tourism, could change Rank's approach. In the aftermath of September 11, many U.S. companies face a general animosity toward the United States. For Hard Rock, this

may be even more acute because the cafés are clear representations of U.S. culture. In fact, the September 11 tragedy had an immediate negative impact on the company's business, especially in major tourist markets such as Orlando, New York, Washington, DC, Las Vegas, Hollywood, Paris, London, and Rome, with same store sales declining 17.1 percent and more tourist-dependent merchandise sales plummeting 22.1 percent between September 11 and December 31, 2001 (*Rank Group, PLC Annual Report, 2001*, p. 12). According to one vice president at Hard Rock's corporate headquarters, "The music that Hard Rock represents is an American phenomenon and representing American culture presents a unique challenge."¹¹ The same uncertain business conditions and the rapid decline of the hyper-themed restaurant segment could make it difficult to interest investors in supporting a buyout. The fact that Hard Rock has needed to rely on advertising for the first time in its thirty-year history attests to the changing nature of its environment.

Rank could also consider heavier reliance on licensing for extending the Hard Rock brand. The company has long maintained a separate licensing company to handle the retail and other merchandise that accounts for a large portion of sales and profits. Hard Rock could use its licensing expertise to extend the Hard Rock brand into more leisure-based activities. The complexity of managing its existing portfolio of leisure and entertainment businesses could eventually cause Hard Rock management to lose control of its core business. Licensing, however, could allow the company to control its core business while using the expertise of others to extend its brand. The price of licensing further, however, would be a loss of Hard Rock's tight control of its name, something that Hard Rock owners have ardently sought since its inception.

Charting the most beneficial course for Hard Rock involves a weighty combination of potential risks and payoffs that will continually confront Rank and Hard Rock's management team over the coming years. Hard Rock's operations have become extremely complex in a highly competitive environment. The market for the themed dining segment is saturated, and Hard Rock expects its future growth to come from hotel operations. According to a Hard Rock vice president, although the cafés will continue to be the core, "the company has definitely identified the growth vehicle for the future, and that is hotels and casinos."¹² In addition, Rank's casino and gaming operations may bring sources of additional value. Early financial returns indicate such a strategy may be successful. Although restaurant revenues and profits continue to decrease, hotel operations appear to be profitable. More time will prove the long-term value of extension into hotels and casinos. Rank has nearly seventy years of experience in creating value from a rather diverse set of businesses. In addition, the current Hard Rock management team is diverse with strong capabilities in the hospitality and entertainment industries. How

such expertise fits the opportunities for value creation presented by Hard Rock's environment will determine the chain's future direction.

NOTES

1. Interview with a corporate executive, Hard Rock Café International, December 10, 2002.
2. Interview with a Hard Rock corporate vice president, December 16, 2002.
3. Interview with a Hard Rock corporate executive, December 10, 2002.
4. Interview with a Hard Rock Café corporate executive, December 10, 2002.
5. Interview with a Hard Rock Café corporate executive, November 26, 2003.
6. Interview with a Hard Rock Café corporate executive, December 10, 2002.
7. Interview with a Hard Rock Café corporate executive, December 10, 2002.
8. Interview with restaurant manager, Planet Hollywood, August 3, 2000.
9. Interview with a Hard Rock Café corporate executive, November 26, 2003.
10. Interview with a Hard Rock Café corporate executive, December 10, 2002.
11. Interview with a Hard Rock Café vice president, December 16, 2002.
12. Interview with a Hard Rock Café vice president, December 16, 2002.

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