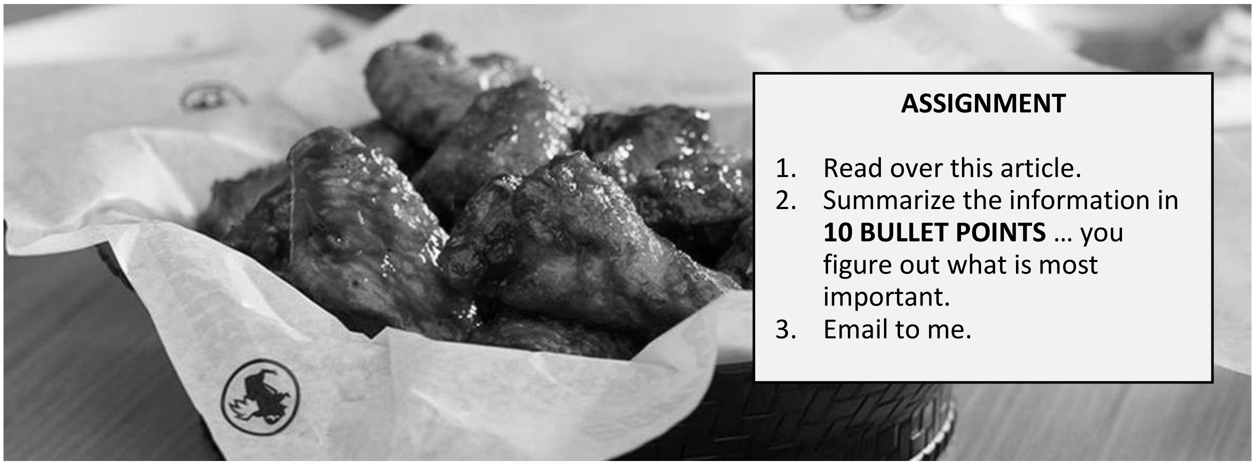
How Buffalo Wild Wings Turned Bar Food into a $3 Billion Deal

Arby's has the meats, and now it also has the chicken wings



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How many chicken wings does $2.9 billion buy? That's the price roast beef sandwich-slinging fast-food brand Arby's agreed to fork over to acquire casual dining chain Buffalo Wild Wings. The deal is the most recent in a recent slew of big restaurant mergers, from Burger King buying Popeyes to Panera snapping up Au Bon Pain.

BWW is just the latest addition to the portfolio of Roark Capital Group, a private equity firm that controls Arby's and the sandwich chain Jimmy John's, as well as Carl's Jr. and Hardee's parent company CKE Restaurants. Acquiring a chicken wing chain would seemingly make sense for Arby's in light of its now-famous "We have the meats" tagline, and analysts also think it wise for more practical reasons: "45 percent of the population orders wings at least once a year, and that's up 2 points from a year ago," according to restaurant analyst Bonnie Riggs of market research firm NPD Group. (Interestingly, Roark also used to own BWW competitor Wingstop, but sold off the last of its holdings in the chain in 2016.)

So how did a fledgling sports bar from Ohio turn into a nearly $3 billion payday? BWW was founded in 1982 by business partners Jim Disbrow and Scott Lowery, who fulfilled a need when they couldn't find classic upstate New York-style chicken wings after relocating from Buffalo to Columbus, Ohio.

The first store targeted sports- and beer-loving college students with a strategic location on the Ohio State University campus. It was originally called Buffalo Wild Wings & Weck because in addition to wings, it served beef on weck, an upstate New York specialty consisting of roast beef served on a caraway seed-studded roll.

By 1992, Buffalo Wild Wings had grown to eight locations and began franchising, opening nearly 30 new locations over the next two years and hiring its first CEO, Sally Smith, in 1994. In 2003, it went public, with its IPO outperforming expectations and bringing in more than $50 million. The following year, it celebrated the opening of its 300th store.

A decade later, B-Dubs, as loyalists call it, had 1,000 stores, cementing its status as a runaway success during a time in which many mid-level chains were faltering. Today its 1,200-plus outlets include international locations in Mexico, Central America, the Philippines, and the Middle East. While it started out serving just one style of hot wings, since then the menu has swelled to include 21 different sauces ranging from Thai Curry and Caribbean Jerk to the mouth-searing “Blazin’,” concocted with fiery ghost peppers. It also serves bar food classics like mozzarella sticks, quesadillas, and onion rings.

But while BWW was at one point one of the hottest restaurant stocks on Wall Street, as Nation’s Restaurant News notes, the company ran into trouble in 2015 when sales began declining. Like other restaurants, BWW’s profit margins were squeezed by rising labor costs, but it also faced a unique challenge: the soaring price of chicken wings. The company laid off an undisclosed number of employees in order to cut costs and also raised its menu prices, something that Riggs says hurt it immensely. “With Buffalo Wild Wings, 40 percent of their traffic is families with kids, but that’s who they basically lost because of the increase in prices. [Families] couldn’t afford to go as often as they once did.”

Meanwhile, after facing significant sales declines in the mid-2000s, Arby’s has staged an impressive comeback: Sales rose 20 percent from 2013 to 2016, thanks to fresh marketing that targeted a male demographic with meaty offerings like brisket and venison. (As Riggs notes, BWW’s customer base also skews heavily male.) Analysts are speculating that Arby’s and Roark could produce similar results for its newest acquisition.

“Buffalo Wild Wings hasn’t stumbled nearly as bad as Arby’s did at one point in time,” says Riggs. “Arby’s comeback to me was the story of the decade, for its management to be able to take that chain and totally turn it around and make it one of the stronger performing chains. I think they can do the same for BWW.”

Amid its recent sales struggles, Buffalo Wild Wings announced back in June that CEO Sally Smith would step down at the end of this year, the result of a clash with an activist investor. After the acquisition is finalized in the first quarter of 2018, BWW will operate as a privately held subsidiary of Arby’s and will be run by Arby’s CEO Paul Brown.

Following news of the merger, some fans expressed concerns that BWW’s food quality would suffer under its new owner (“Great now they’re gonna have shitty food at BWW,” a Twitter user complained). Others have wondered if the merger might mean a relocation of BWW’s headquarters, resulting in job losses for the city of Minneapolis.

According to a BWW spokesperson, “Plans for the combined organization will be developed over the next several months and will be announced as soon as they are complete.” In the meantime, some fans are looking on the bright side: One Twitter user wrote, “If this means we get Arby’s curly fries paired with our BWW wings, I think this is a clear win for everyone involved.”