

A Side of Savings

Team Crown Joules

Department of Energy Better Buildings Case Competition

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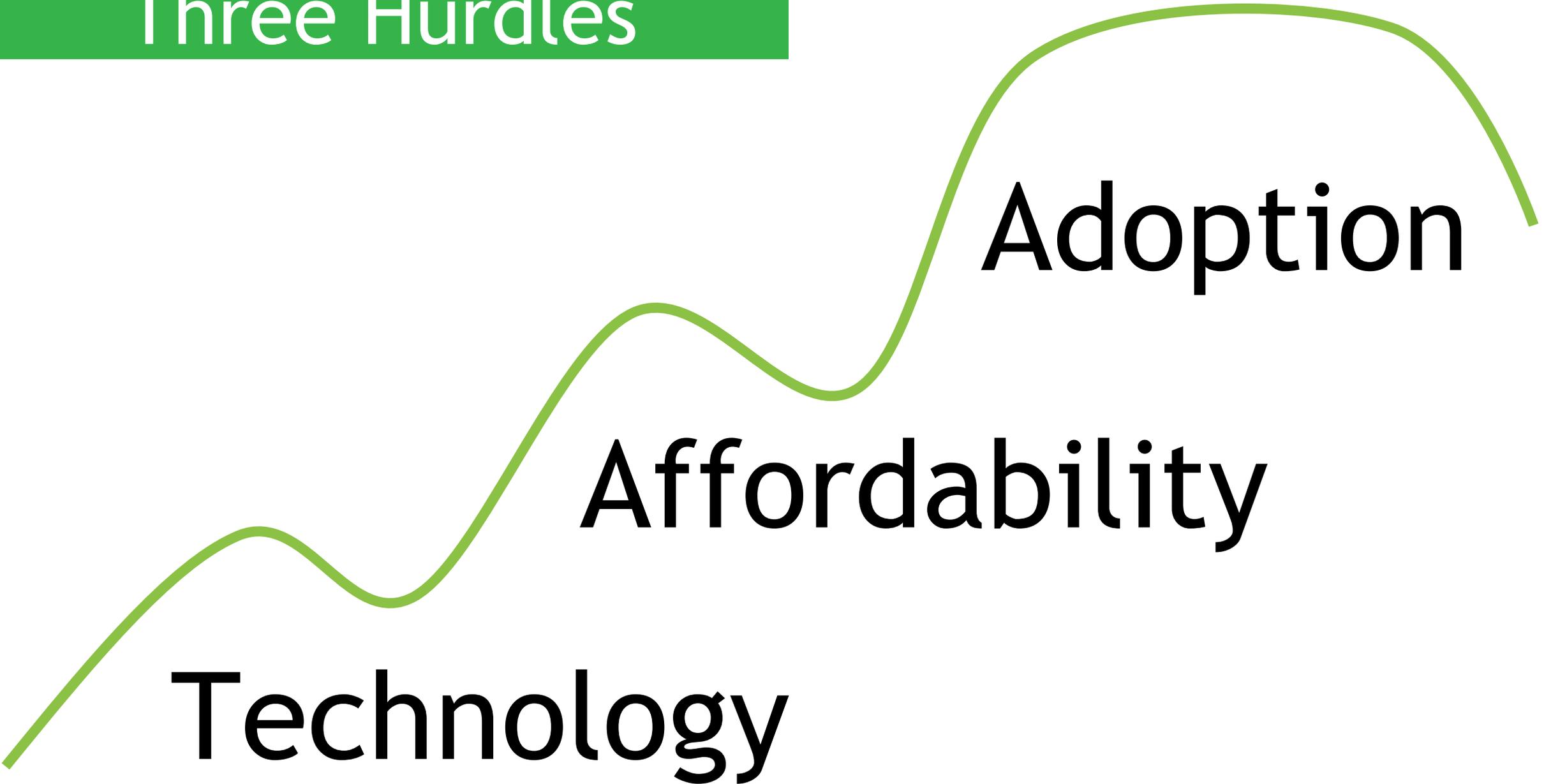
Washington, DC
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Challenge

Potential for savings and environmental conservation is not being optimized.

- Energy expense is a small percentage of overall operating budget.
- Environmental concerns take second chair to profitability.
- Benefits of investing are not thought to be immediate enough.
- Few incentives to innovate independently.

Three Hurdles

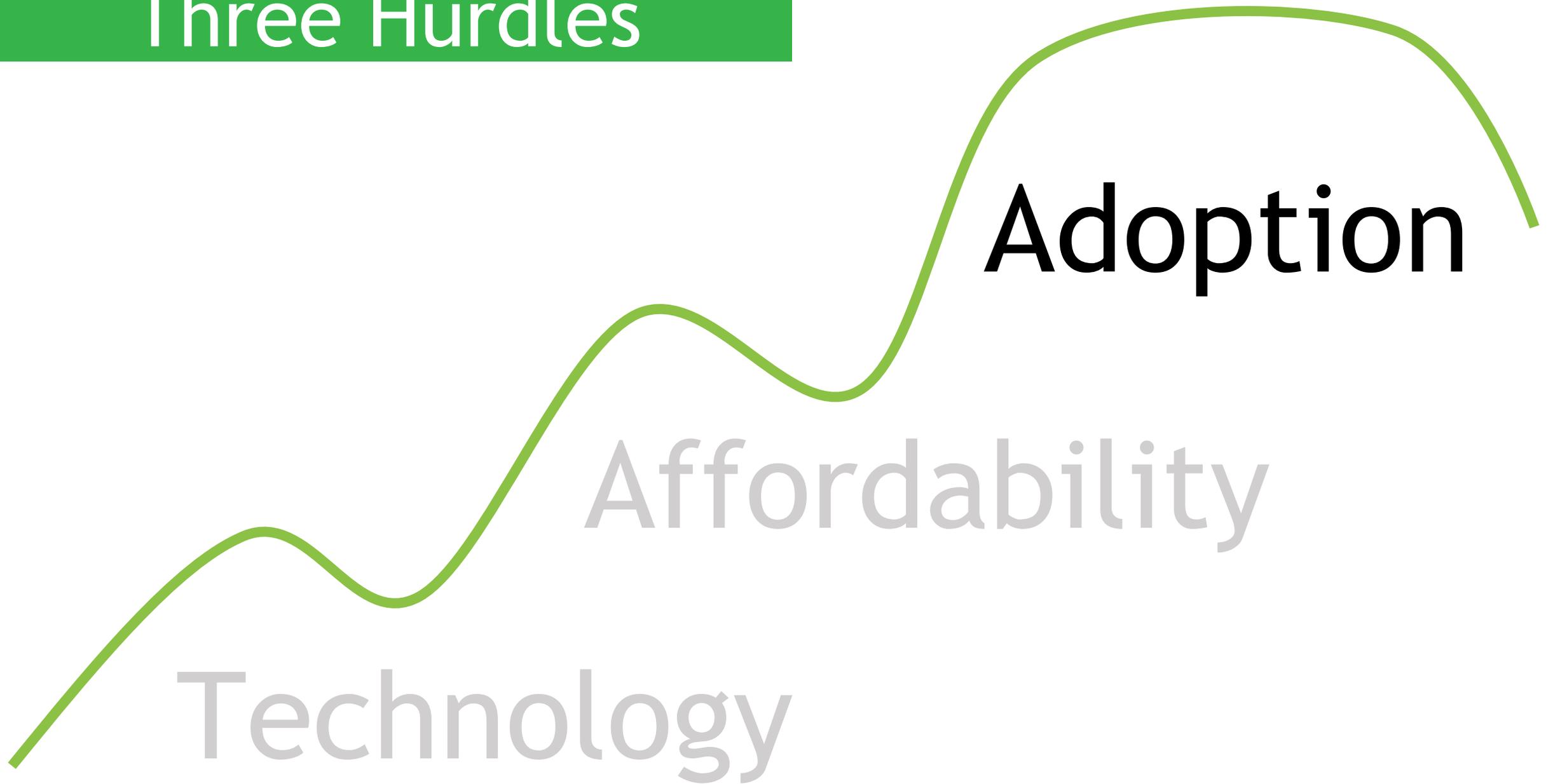


Technology

Affordability

Adoption

Three Hurdles



Overcoming Inertia

Neither monetary savings nor environmental benefit has convinced franchisees to act.

Despite technical strength and decreasing upfront costs of capturing long-term savings, corporate efforts have proven ineffective to date.

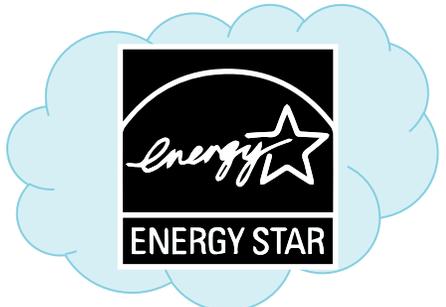


Proposal Synopsis

Franchisee responsiveness more likely if initiatives tether to revenue.

- Energy efficiency imbedded in campaign focused upon increasing revenues.
- Increased visibility, clear benefits.
- Franchisees perceive more value from corporate branch
- Incremental changes easily implemented.
- Voluntary participation from franchisees.
- Proposal can take many forms. One focusing on branding suggested herein.

Introducing...



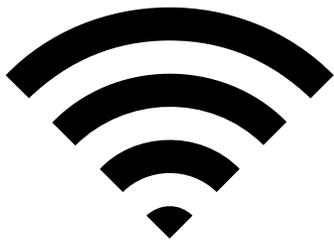
Bundled Selling Points



Eco-consciousness



Energy Efficiency



Wi-Fi



Premium Menu Items

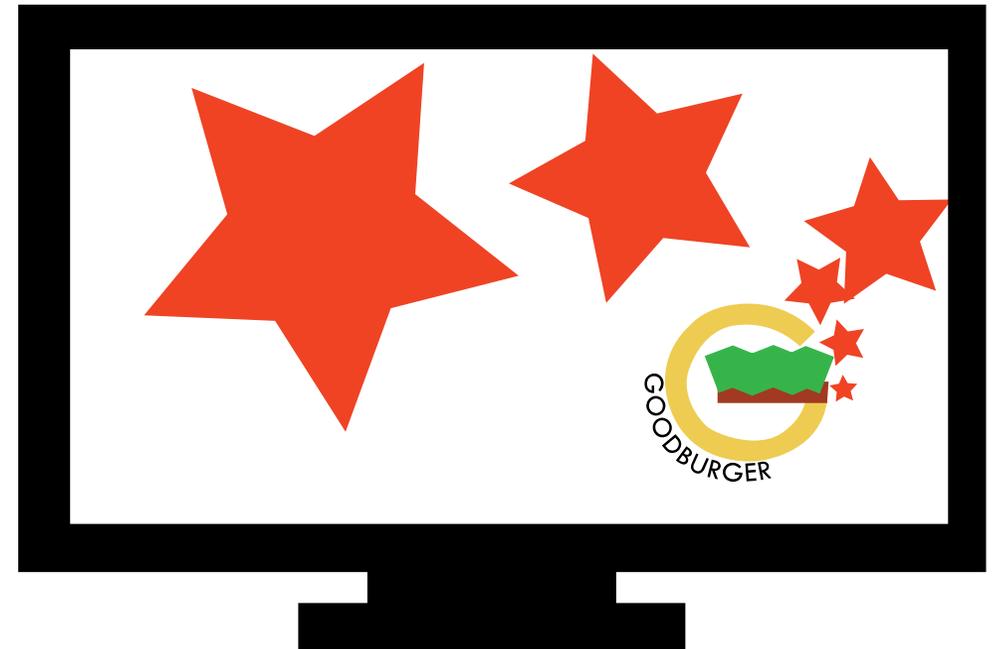


Clear Identity

Roadside Visibility



Dedicated Ad Budget

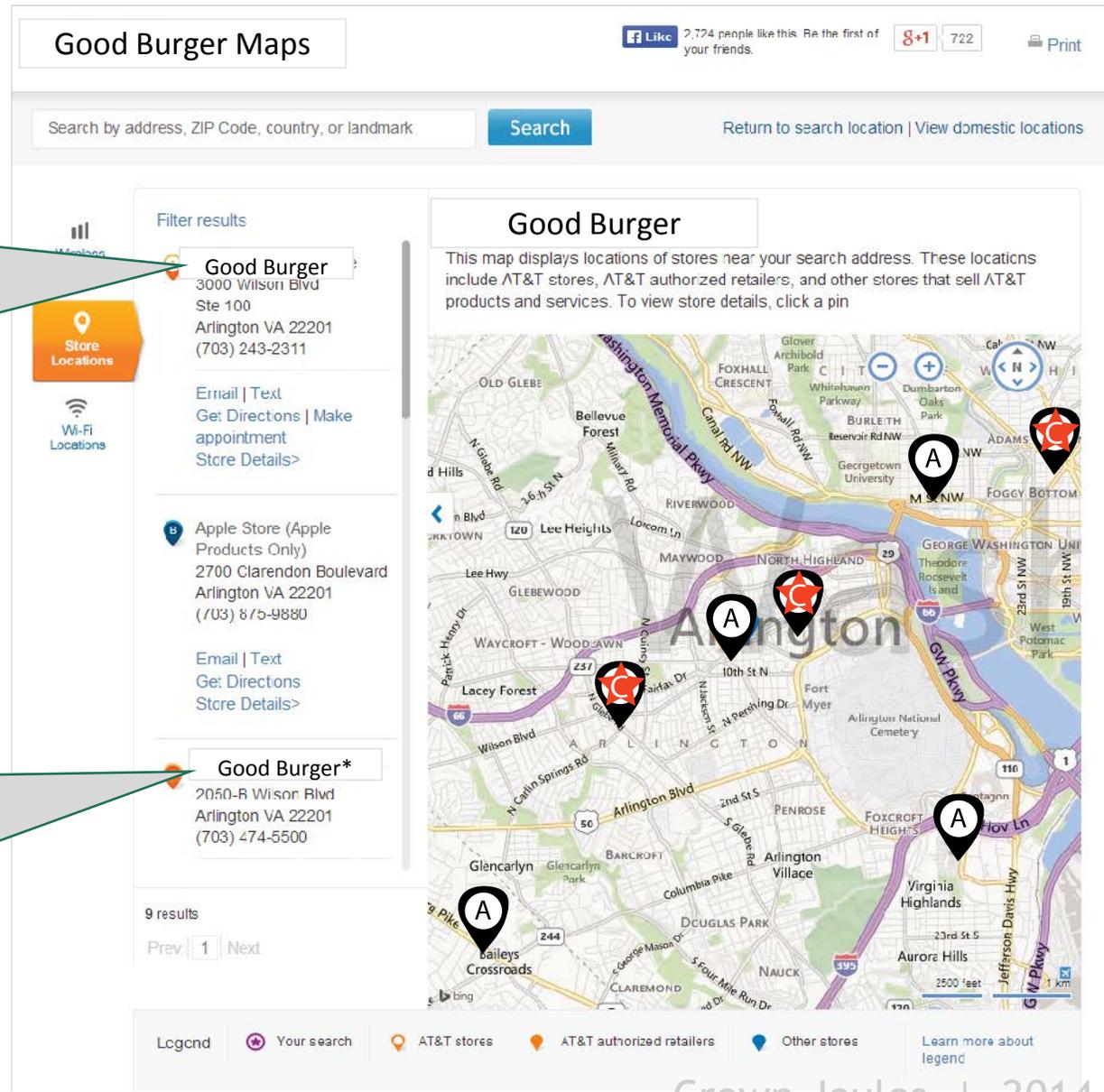
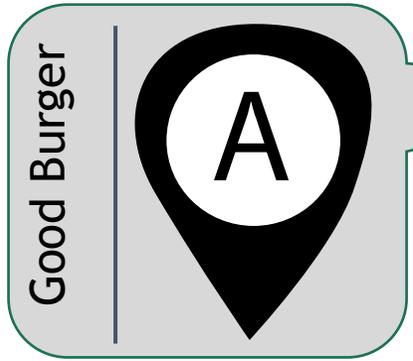
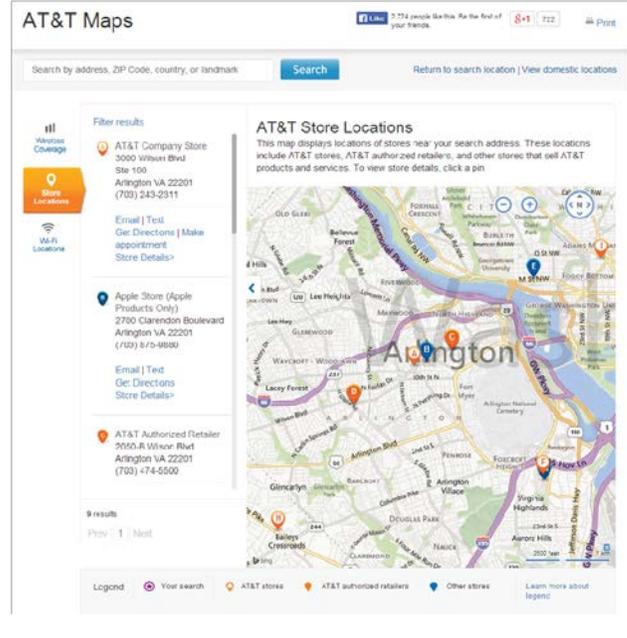


Clear Identity



Mobile Search-ability

Borrow from existing interfaces to highlight different offerings within one brand...



Technical Recommendations

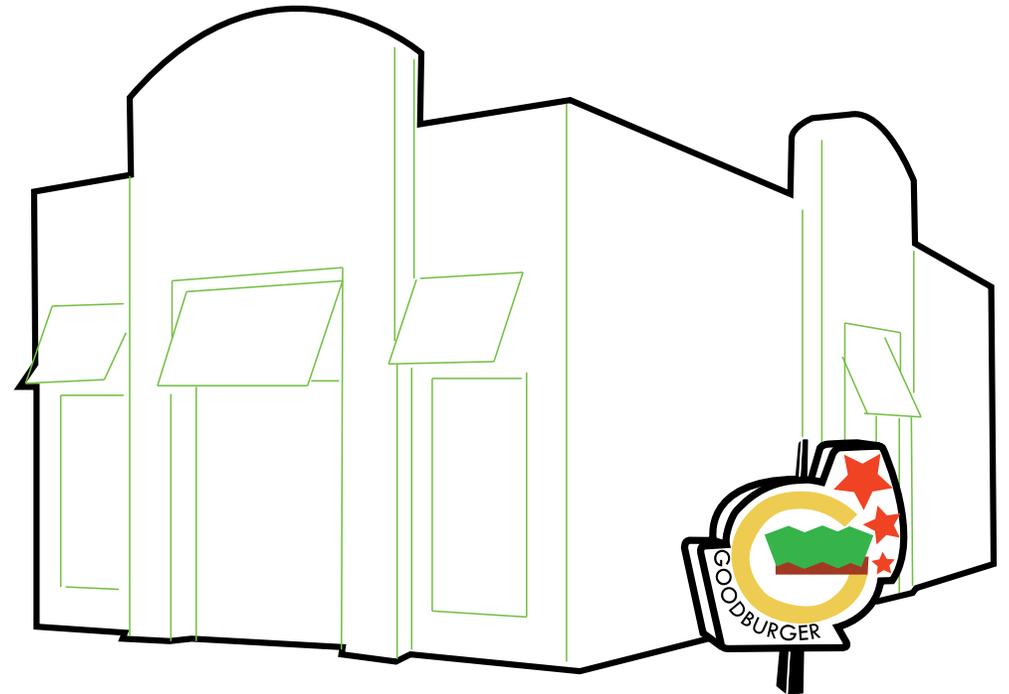
Pick low-hanging fruit in the form of HVAC improvements...

Option 1:

Envelope, HVAC, & Lighting

**Franchisees presently spend an average of \$25,200 on energy consumption.*

	Initial Investment	Energy Reduction	10y NPV	IRR	Payback Period
HVAC	\$21,845	37%	\$50,152	41%	2.51
Lighting	\$600	7%	\$7,501	88%	0.8
Envelope	\$14,745.26	1%	-\$13,501	-31%	91.5



Technical Recommendations

One-to-one swaps of equipment minimize workflow disruption and additional required training...

Option 2:

Kitchen and Back-of-House Operations

	Initial Investment	Energy Reduction	10y NPV	IRR	Payback Period
Exhaust Hoods	\$21,845	39%	\$50,152	41%	2.2
Appliances	\$13,400	9.1%	\$4,220	6%	5.98
Refrigeration	\$5,900	2.4%	-\$1,230	0%	9.76



**Kitchen exhaust hoods are shared category: HVAC & Kitchen Appliances.*

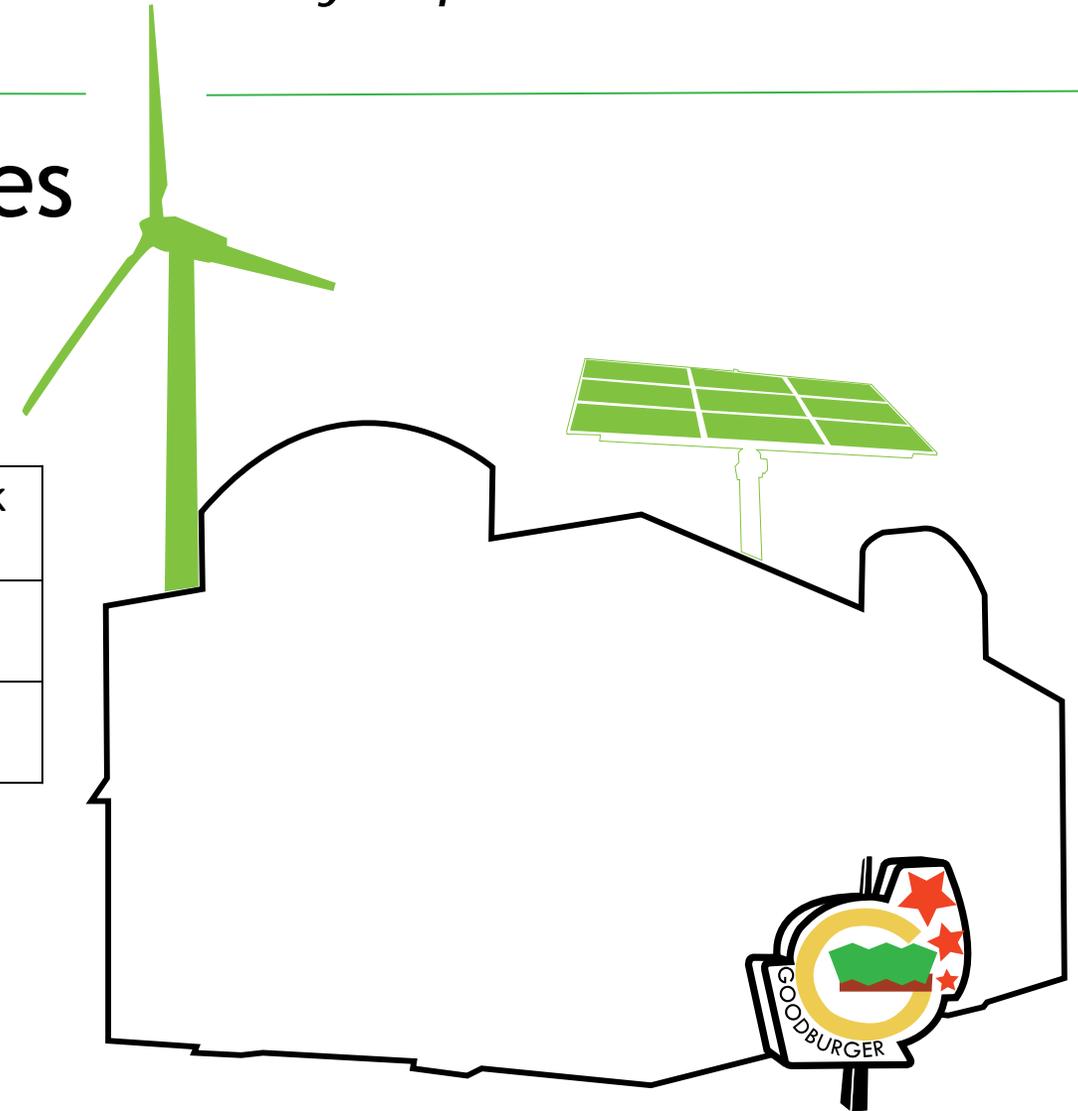
Technical Recommendations

Impressive and eye-catching, but prohibitively expensive for franchisees...

Option 3:

Exterior Distributed Renewables

	Initial Investment	Energy Reduction	10y NPV	IRR	Payback Period
Wind	\$62,500	NA	-\$12,309	1%	9.61
Solar	\$43,550	NA	\$2,008	6%	7.38

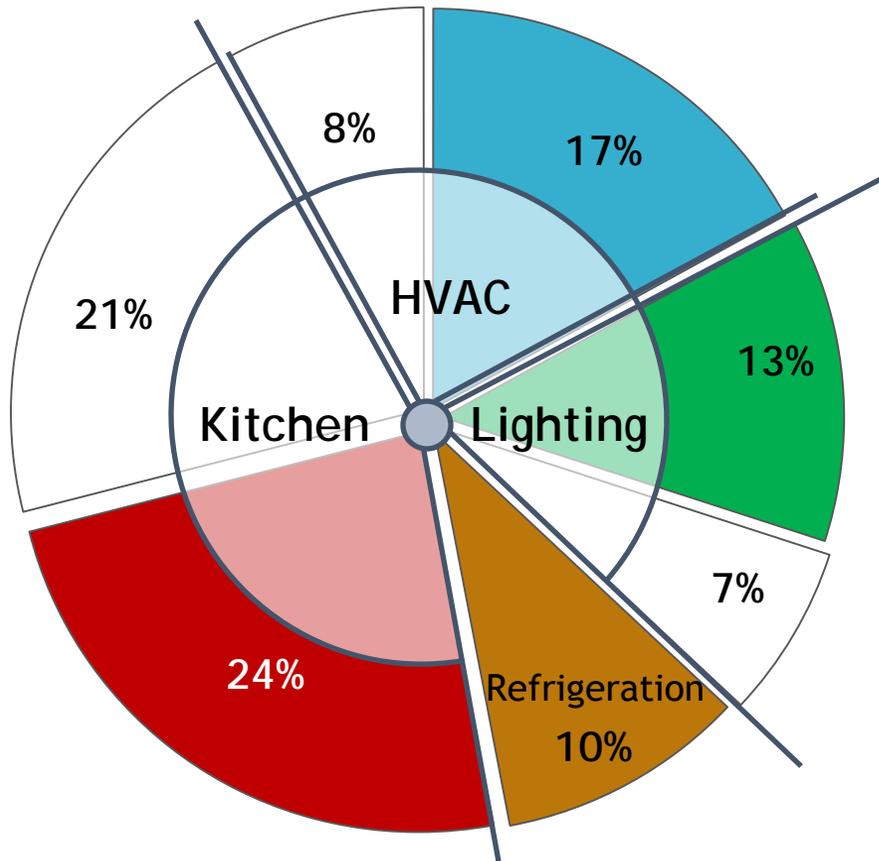


**Alternative energy initiatives reliant upon subsidies to be cost-effective.* Crown Joules | 2014

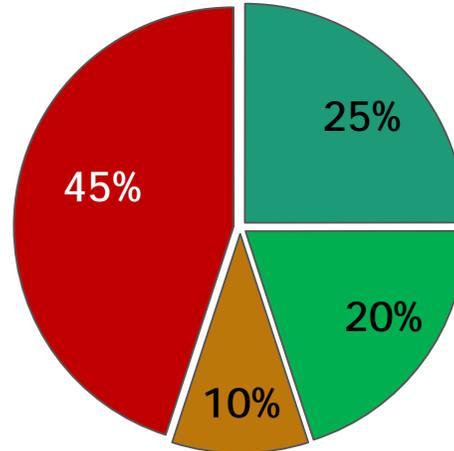
Comparison

39% energy reduction, 3 year payback

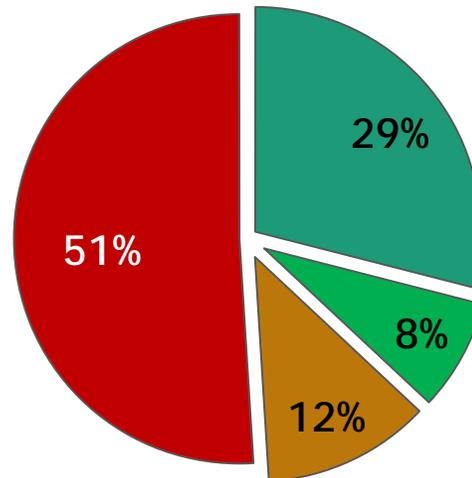
Good Burger ★



Good Burger



QSR National Average



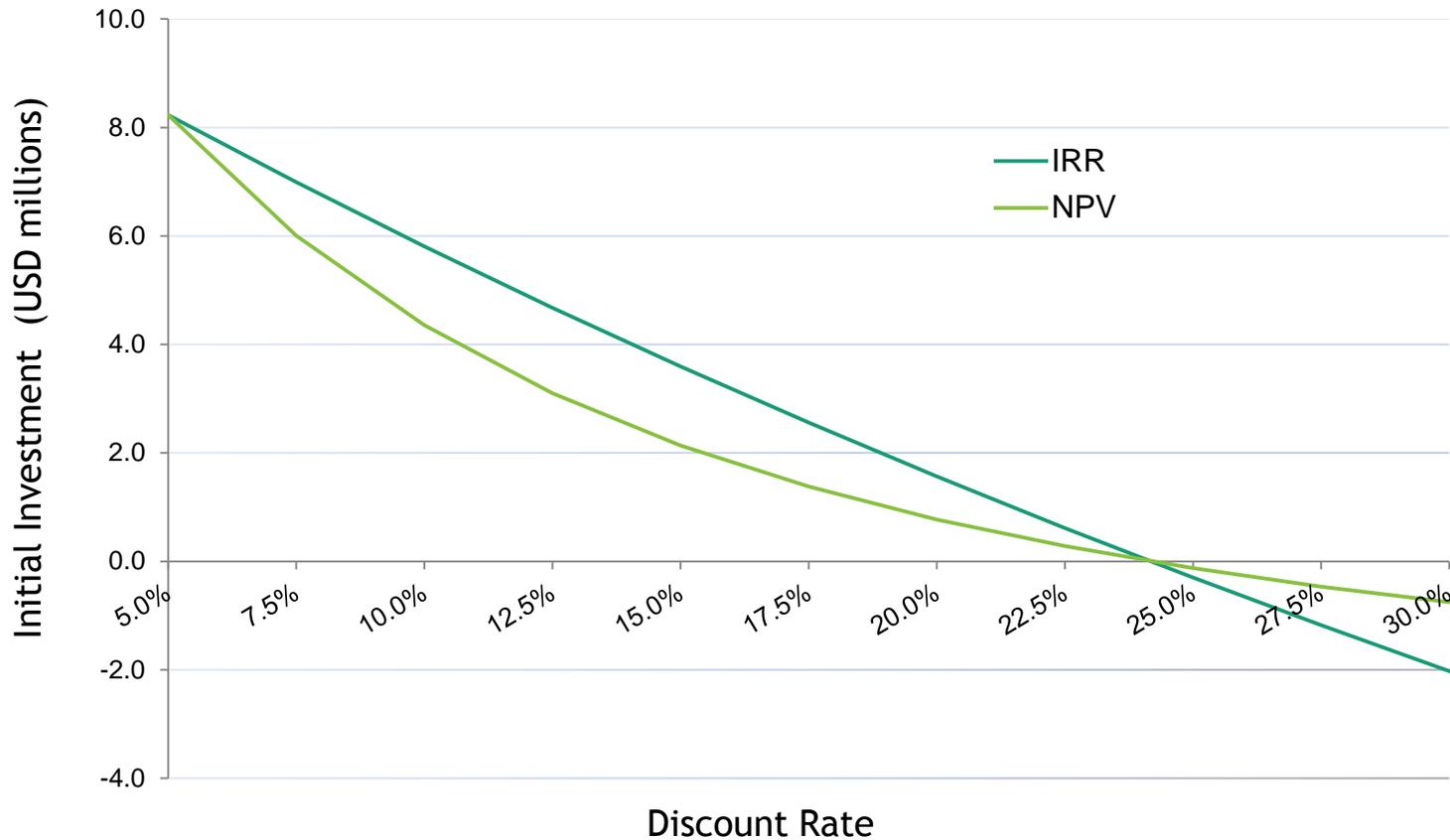
	Good Burger	Good Burger ★
Energy Consumption	686 kBTU/ft ²	418 kBTU/ft ²
Long-Term Energy Expense	\$25,200	\$15,372
Long-Term Profit Margin*	4%	5.56%
Annual Profit Increase*	NA	32.76%

*Excludes revenue increases from Good Burger ★ branding or royalty rate increases.

Vanilla Reductions

10% across company-owned locations easily achieved, but misses opportunities.

10% Energy Consumption Reduction

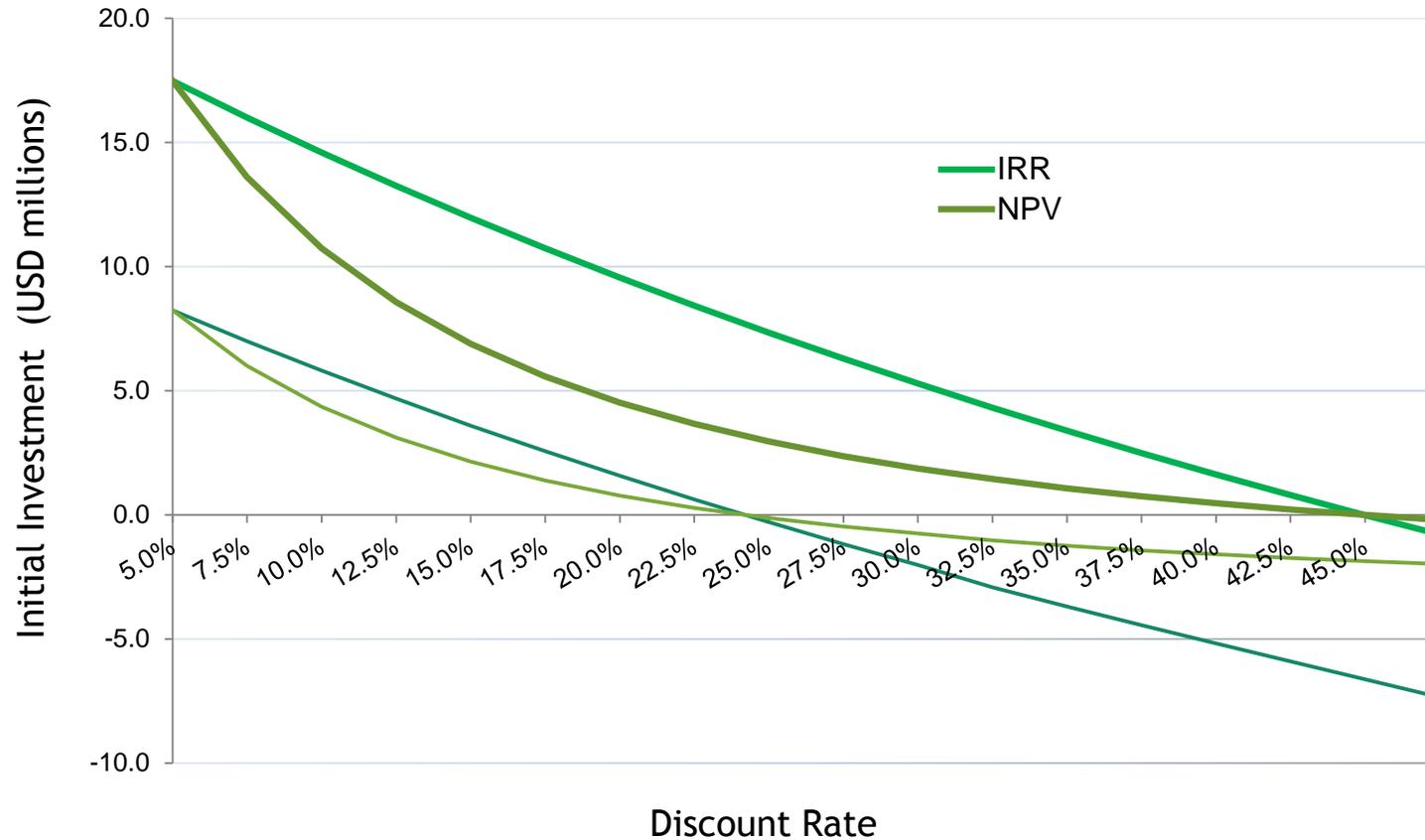


Capital Outlay	\$8.23m
Payback	4.46
IRR	5%
20y NPV	\$8.3m

Exploiting Synergies

Integrated systems capable of greater savings than piecemeal improvements.

Integrated v. Vanilla Energy Consumption Reduction

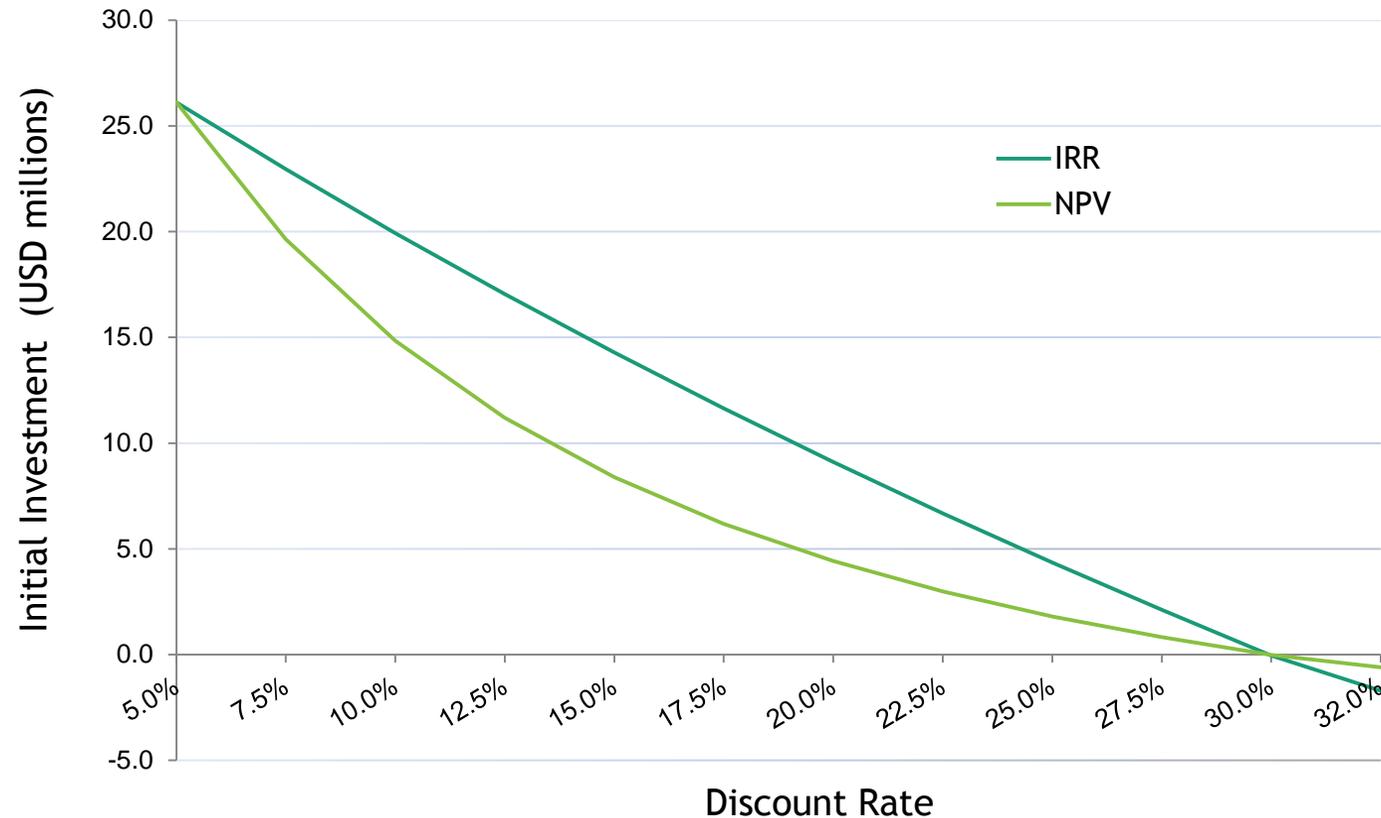


	10% Reduction	39% Reduction
Capital Outlay	\$8.23m	\$17.48m
Payback	4.46	1.1
IRR	5%	38%
20y NPV	\$8.3m	\$80.5m

Broad Penetration

Value proposition to franchisees enables more aggressive reduction target.

Financing Good Burger ★ Launch



39% Energy Reduction	\$17.48m
Campaign & Minor Capital Improvements	\$8.64m
Payback*	3.0
IRR*	24%
20y NPV	\$71.87m

**Excludes revenue increases from Good Burger ★ branding or royalty rate increases.*

Pilots & Best Practices

Provide evidence of benefits and hedge risks through small scale pilots.

- ★ Best practices component in which corporate arm demonstrates solidarity with franchisees in investments and what they perceive to be risk-taking.
- ★ Release results internally to all franchisees.
- ★ Quickly learn what works and what doesn't before recommending to franchisees.
- ★ Risks and learn what works best in different markets and geographic areas.

Financing

External Sources



- ★ Corporate branch assists in securing financing for franchisees.
- ★ Leverage state, federal, and municipal lending/tax incentive programs.
- ★ Lower price point: new materials purchased at discount due to bulk wholesale pricing.

Financing

Internal Sources

- ★ \$26m required to initiate program represents 6% of the \$432m Good Burger collects in royalties from franchisees annually.
- ★ Vast potential to improve scale of existing royalties.
- ★ Evaluate corporate hurdle rate and cost of capital.
- ★ Identify and offer to finance high-value, non-adopting franchise locations.
- ★ Benchmark historic sales/costs, adjust, and collect the difference.

Implementation

Target easy victories and build support across franchisees.

- ★ Identify target geographic areas where dollars stretch furthest.
- ★ Gauge interest across franchisees whom have long-term relationships with corporate, are in target areas, and preferably own multiple locations.
- ★ Assess locations and demographics in which sales are likely to increase the most as a result of implementation.



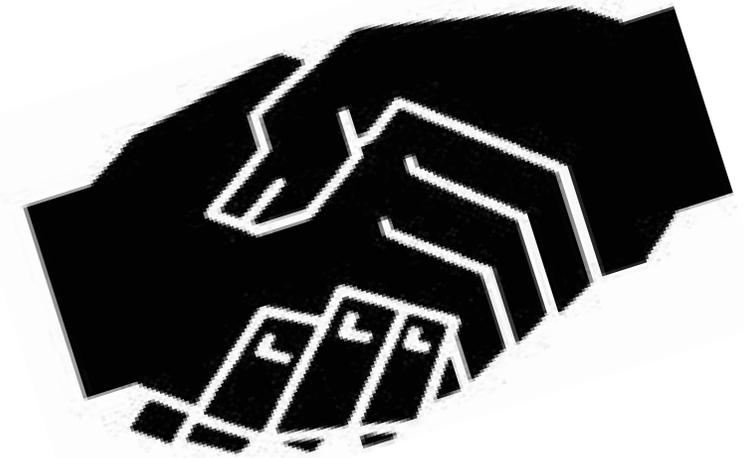
Approach Advantages

- ★ Follows the traditional roles of franchisor and franchisee.
- ★ Best practices and pilots reduce risks and increase potential for innovation.
- ★ Additional value-add from corporate through advertising and financing assistance.
- ★ Strengthens the entire Good Burger brand by creating pressure, differentiation, and a “dated” sense across competitors.
- ★ Exploits slim profit margins to show dramatic profit increase.

Conclusion

This illustration is one proposal which ties revenues to energy savings, but myriad variations based upon the concept are likely to be effective.

- ★ Psychological bias to respond more to revenue growth instead of cost-cutting, even if effect upon profitability is identical.
- ★ Leverage existing strengths and core competencies.
- ★ Support positive incentives rather than threat of negative repercussions.
- ★ Do not dramatically alter the franchise agreement.
- ★ Short payback period and immediately visible results.
- ★ Align incentives and provide equitable returns for both corporate branch and franchisees.



Questions?



Team Crown Joules | 2014