The Better-Run Restaurant: Environmental Sustainability in Restaurant Retail 2010

Benchmark Report

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Retail Systems Research

EXECUTIVE SUMMARY

For a restaurant organization, there are three reasons to enact environmentally sustainable practices: to save cost, to reduce waste, and to build a greener brand – ultimately creating customer loyalty. In fact, the best performing restaurateurs believe green-minded consumers care enough about a brand's ecological positioning to factor it into "where to dine" decisions, creating a viable opportunity to gain new business. However, the means to successfully enacting such practices require significant retooling of the organization enterprise wide, and the need for better education to what well-run sustainability practices look like abounds.

BUSINESS CHALLENGES

In addition to being pained by rising ingredient and material costs, today's restaurateur is weary of watching profits drained to wasted energy costs; 46% of respondents are challenged by wasted electrical energy, another 38% by watching fuel-based heat and energy costs quite literally fly out the window. Wasted energy costs are an even greater challenge for the largest retail chains. Packaging also presents a significant pain point. Further, uncertainty and confusion cloud the space; many restaurateurs are hesitant to act due to the noise of "greenwashing."

OPPORTUNITIES

Our respondents believe their biggest cost-cutting opportunities lie in store energy reduction, in the kitchen, and in food preparation and packaging. The larger the operation, the greater the cost-cutting opportunity perceived in food preparation and packaging. Across all performance and revenue tiers, dry goods were called out has having the greatest potential. The waste associated with production, packaging and storage of this merchandise represents a seemingly quick win – and anything that reduces the amount of cardboard used is considered a goodness.

ORGANIZATIONAL INHIBITORS

Respondents report difficulty in quantifying Return on Investment (ROI), capital required to make those investments, and the ongoing cost of ownership for new technologies as the top three organizational inhibitors to moving forward with sustainability initiatives. There are simply too many unknowns. Absent cost as a driver, customer demand would have at least some influence on the decision-making of 98% of our respondents.

TECHNOLOGY ENABLERS

When it comes to the specific technologies best suited to help today's restaurants run better, efficiency is the name of the game. Sixty four percent of all respondents cite energy efficient heating, ventilation and air conditioning (HVAC) systems as the key to cutting cost, reducing waste, and becoming better global citizens. Another 58% say that store energy usage rationalization and reduction solutions are the way to achieve that goal in the field. The best performing restaurants are even more focused on efficiency-based technologies and in reducing their overall carbon footprint.

BOOTSTRAP RECOMMENDATIONS

Our recommendations are pragmatic, and start from the basics: for now, expect ROI from cost-savings initiatives only. While brand-building is an important part of the picture, expectations for hard dollar returns should be low. Expect cost-savings in the kitchen, food preparation facilities, and front and back of house in the store. When planning future investments in technology and equipment, consider the vendor's commitment to sustainability as *part of* the selection process. Any investments made in green initiatives should be publicized. Simple steps like identifying "green" or energy efficient equipment and systems will be noticed by customers and can help build the brand. Any food locally or organically sourced should be identified as such on menus. Finally, understand that the art of brand-building – whether for "green" or any other initiative is a journey, and will not bring windfall profits overnight. Position yourselves to take advantage of investments all along the way.

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SECTION I: OVERVIEW

Why the Study Was Conducted

As the global population continues to increase in size, industrial activity and overall consumption, the need for more environmentally sound practices becomes increasingly more evident. For consumers, such practices have two benefits: the feeling gained from behaving responsibly in consideration of present and future generations (primary), and the chance to save money (secondary, and in some cases, customers are actually willing to spend *more* if they believe the product they are buying is better suited at achieving their primary goal).

For businesses, these reasons still apply, but for most, their order is reversed: cost savings come first, and ethically-responsible benefits are a value-add. Yet for a brand, there is a third and additional reason to enact “greener” practices, and as should be the case with any forward-thinking brand initiative, it is centered wholly on the customer: the ability to align the brand with a message of environmental-responsibility presents tremendous opportunity to gain customer loyalty from green-minded consumers. At a time when wallets are tight, this is no small feat.

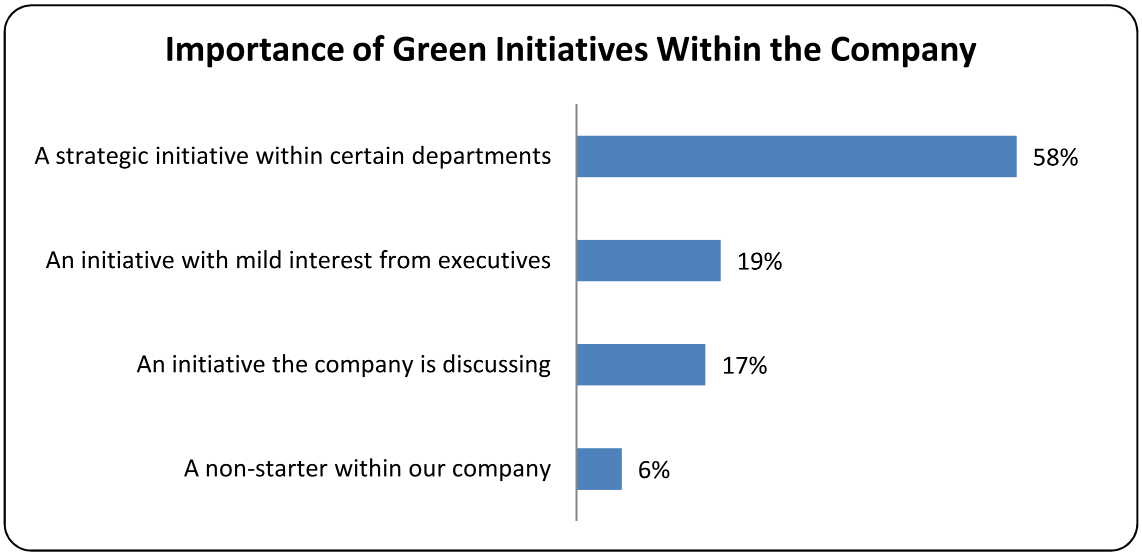
As a result of this brand-alignment opportunity, there is a vast amount of noise bombarding brands about how they can “tell a green story” to their customers. Beginning in 2008, RSR Research launched a line of benchmark studies to cut through that noise. By questioning retailers directly about their actions and intentions, we’ve been able to gain a better understanding of the “real-world” green practices being employed today, and which of those practices are proving to be most effective in driving down cost, reducing waste and consumption, and building the eco-savvy brands that attract new business.

Why Restaurants?

This year, we extend our field of study and focus this report explicitly on *restaurant* retailers to find out how their green business challenges and opportunities compare. In theory, restaurant retailers have similar business models to general retailers: both are customer-facing, both survive on predominantly discretionary spending, and both compete against opponents who offer essentially similar products; the intangible aspect – the emotional connection to the brand - is a key component of the customer’s decision of where to dine. Does a restaurateur’s environmental commitment play a role in that decision? As you will see in the coming pages, restaurant operators whose sales are already outperforming their peers believe that answer to be a resounding “yes.”

In fact, restaurant retailers immediately validate what general retailers have told us; the green conversation is happening in virtually every restaurant organization, regardless of size, location, cuisine, or business plan. Fifty-eight percent of the total respondents identify green initiatives as a strategic initiative within certain departments of their organization, while only 6% of the overall respondent pool identify green as a non-starter (Figure 1).

Figure 1: Green Growing to Strategic Importance

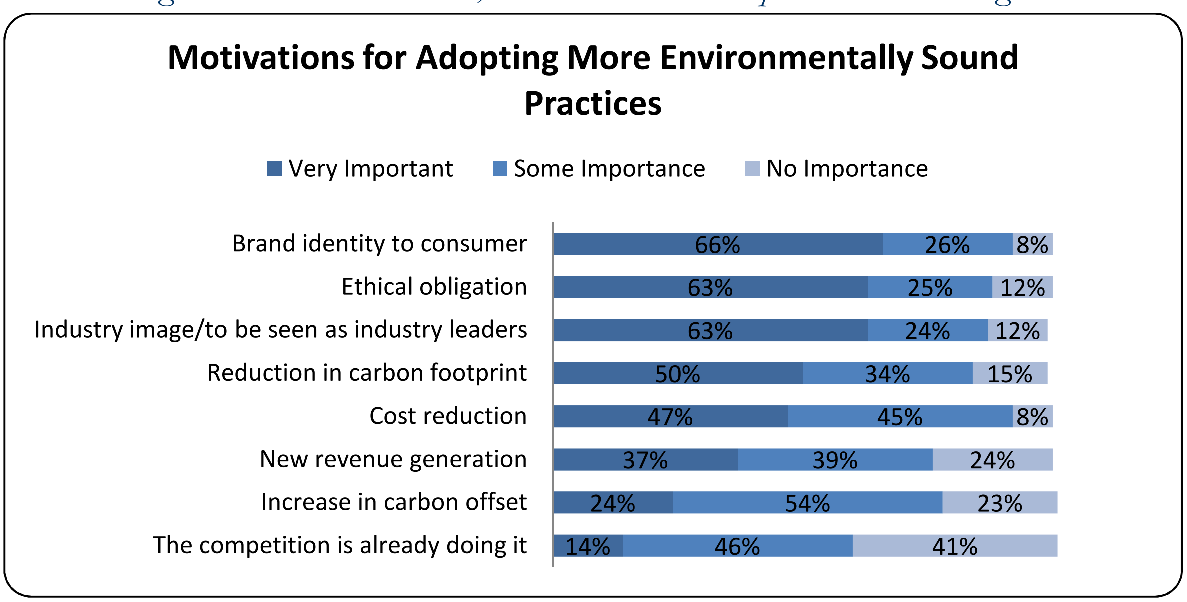


Source: RSR Research, February 2010

An Industry with Vision and Heart?

When viewed in aggregate, restaurateurs tell us their top motivation to take on green initiatives is the ability build an environmentally-friendly brand to the consumer (66%, Figure 2). We expected to see this emerge as a top motivator, as general retailers have increasingly been becoming motivated by brand alignment as the years progress. However, restaurant retailers *do* surprise us by pointing to ethical obligation (63%), and the potential to be viewed as industry leaders (also 63%) as top motivators, as well. We will delve much more into their reasoning in the Opportunities section of this report.

Figure 2: Brand Awareness, Ethics and Leadership Take Center Stage



Source: RSR Research, February 2010

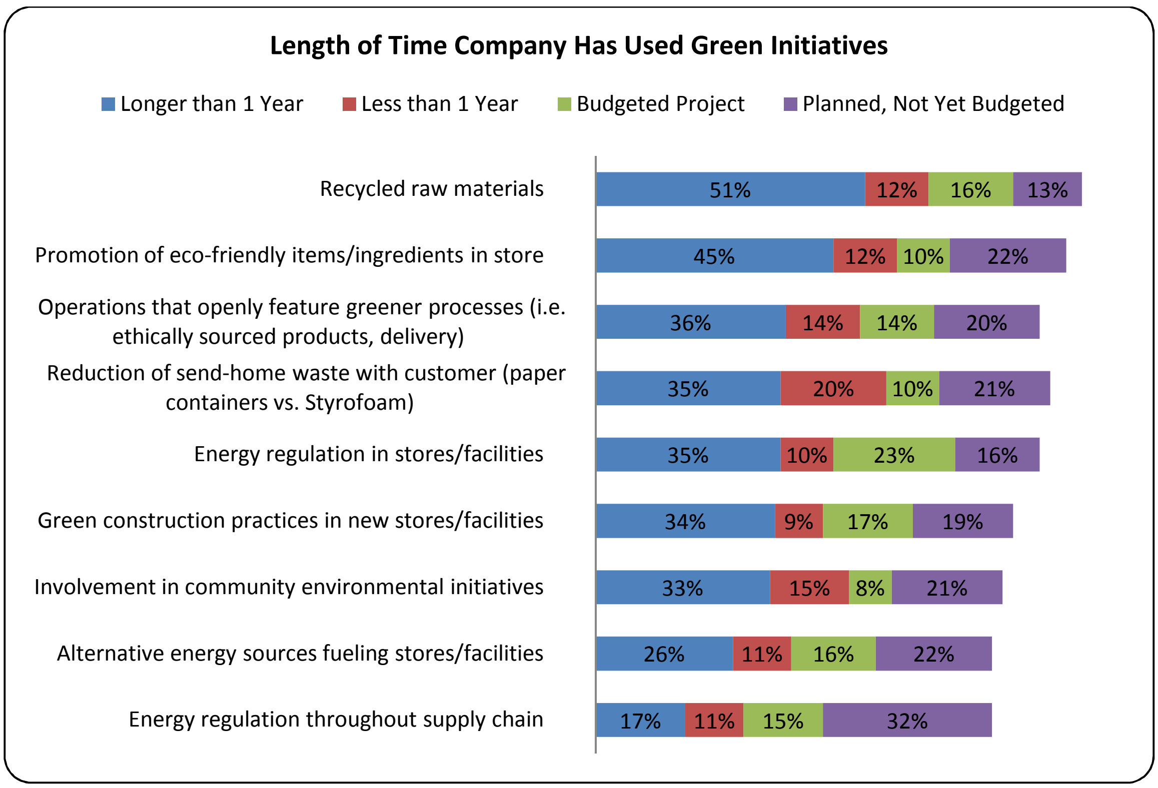
It is worth noting that when viewing these motivations by restaurant performance (explained in detail within our Methodology section, page 4), those restaurants with the worst sales performance care more

about cost reduction (68%) than do the best performers (41%). Lagging performers also cling to the notion that "hope is an actual strategy" at a disproportionate rate: only 27% of well-performing restaurant retailers look to green initiative to generate new revenue opportunities, vs. 48% of poor-performers. Lagging restaurateurs, seeing fewer guests in their dining rooms, hope in vain that greener practices will cut their costs and increase their top lines to supplant poor business strategies. Yet as we will see in just a moment, these same restaurateurs are far less likely to be taking the required steps to become environmentally-savvy, let alone possess the vision and skill set needed to fill those dining rooms.

IF YOU'VE GOT IT, FLAUNT IT

Next, we ask about how long eco-conscious initiatives have been in play. While recycling raw materials earns top honors from the overall response pool (51% have been recycling for more than 1 year), restaurateurs also have significant traction in promoting eco-friendly items and ingredients in store: 45% have been at it longer than 1 year, another 12% have starting do so in the past 12 months (Figure 3).

Figure 3: Recycling Most Common, Promotion not Far Behind



Source: RSR Research, February 2010

The best performing restaurateurs are even more aggressive about the importance of telling the menu's green story to diners: 54% of Winning Restaurants have been promoting eco-friendly items and ingredients for more than a year, compared to only 30% of lagging restaurants. In continuation of that theme, Winning Restaurants are also more apt to utilize operations that openly feature greener processes (such as ethically sourced products and delivery): 44% of Winners have been featuring these processes for more than a year, compared to only 18% of the worst performers.

Perhaps the most interesting data points in the above chart are highlighted in green – those projects which currently hold restaurant organizations' budget. At 23%, energy regulation in stores and facilities is

the clear leader, a statistic worth echoing: *nearly 1 out of every 4 restaurant organizations plans to invest in energy regulation systems this year*.

METHODOLOGY

RSR uses its own model, called the "BOOT," to analyze Retail Industry issues. We build this model with our survey instruments. Appendix A contains a full explanation of the methodology.

In our surveys, we continue to find differences in the thought processes, actions, and decisions made by retailers who outperform their competitors and the industry at large. The BOOT model helps us better understand the behavioral and technological differences that drive sustainable sales improvements and successful execution of brand vision.

DEFINING RESTAURANT WINNERS AND WHY THEY WIN, AND WHY LAGGARDS FAIL

Our definition of Restaurant Winners is straightforward. We judge restaurant retailers by year-over-year comparable store sales improvements. Assuming industry average comparable store sales growth of three percent, we define those with sales above this hurdle as "Winners," those at this sales growth rate as "average," and those below this sales growth rate as "laggards" or "also-rans." It is consistent throughout much of RSR's research findings that Winners don't merely do the same things better, they tend to do different things. They think differently. They plan differently. They respond differently. Of course, in dour economic times like those of late 2008 and most of 2009, it's hard to find anyone over-performing. ***We therefore attempted to re-normalize our results by asking restaurateurs to report their performance over the last two years***. For the same reason, we requested 2008 revenue levels.

Laggards also tend to think differently. They may have spectacular vision, but often fail on execution. They may forget the power and breadth of choices today's customer has. They fail to re-invent themselves when it becomes obvious their existing business model is no longer working. They don't change their business processes in an effective manner, and so they either eschew technology enablers, or don't gain expected Return on Investment on those they DO buy. In good times, they skate by: in tough times these weaknesses come back to haunt them.

SURVEY RESPONDENT CHARACTERISTICS

RSR conducted an online survey from November 2009-January 2010 and received answers from 124 qualified restaurant retail respondents. Respondent demographics are as follows:

- **Job Title**:

Senior Management (CEO, CFO, COO)	35%
Vice President	16%
Director/Manager	33%
Associate/Staff	9%
Internal Consultant & Other	8%

- **2008 Revenue ($ Equivalent)**:

Less than $1 Million	12%
$1 - $10 Million	28%
$10 - $50 Million	22%
$51 - $999 Million	21%
Over $1 Billion	17%

- **Market Segment**:

Coffee and Snack	12%
Quick Service	19%
Fast Casual	22%
Family Dining and Buffet	15%
Casual Dining	37%
Fine Dining	9%
Food Distributor/Other	17%

- **Locations (Restaurant Presence)**:

United States	96%
Canada	25%
Europe	12%
United Kingdom	17%
Asia Pacific	16%
Middle East	15%
Latin America	15%
Africa	8%

- **Number of Restaurants**:

1-2 (Mom and Pop)	32%
3-10 (Small Chain)	21%
11-100 (Mid-size Chain)	22%
More than 100 (Large Chain)	26%

- **Year-Over-Year Comparable Store Sales 2007 Growth Rates (assume average growth of 3%)**:

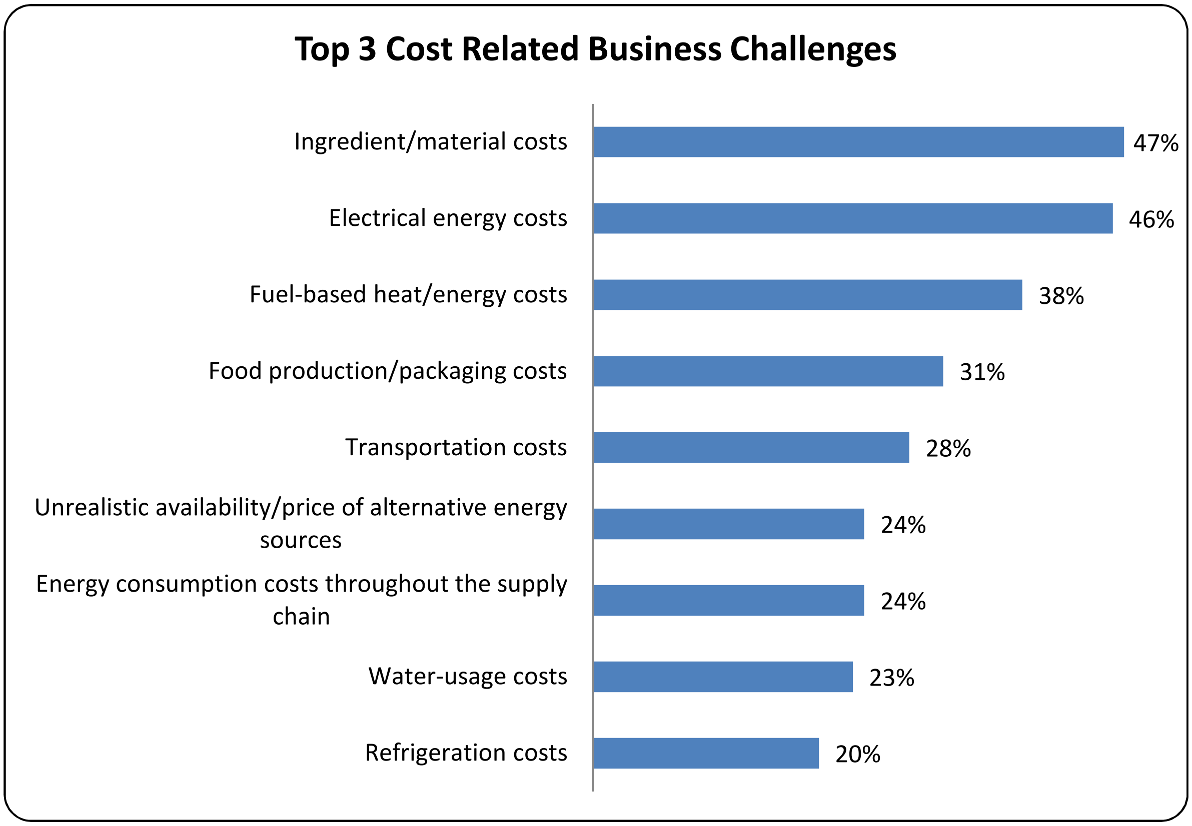
Worse than Average	25%
Average	41%
Better than Average (Restaurant Winners)	35%

SECTION II: BUSINESS CHALLENGES

BUSINESS CHALLENGES: THREE TYPES OF FUEL – FOOD, ELECTRIC, AND ENERGY

Today's restaurateur is pained by rising ingredient and material costs (47%, Figure 4).

Figure 4: Ingredients and Energy Top Cost Issues



Source: RSR Research, February 2010

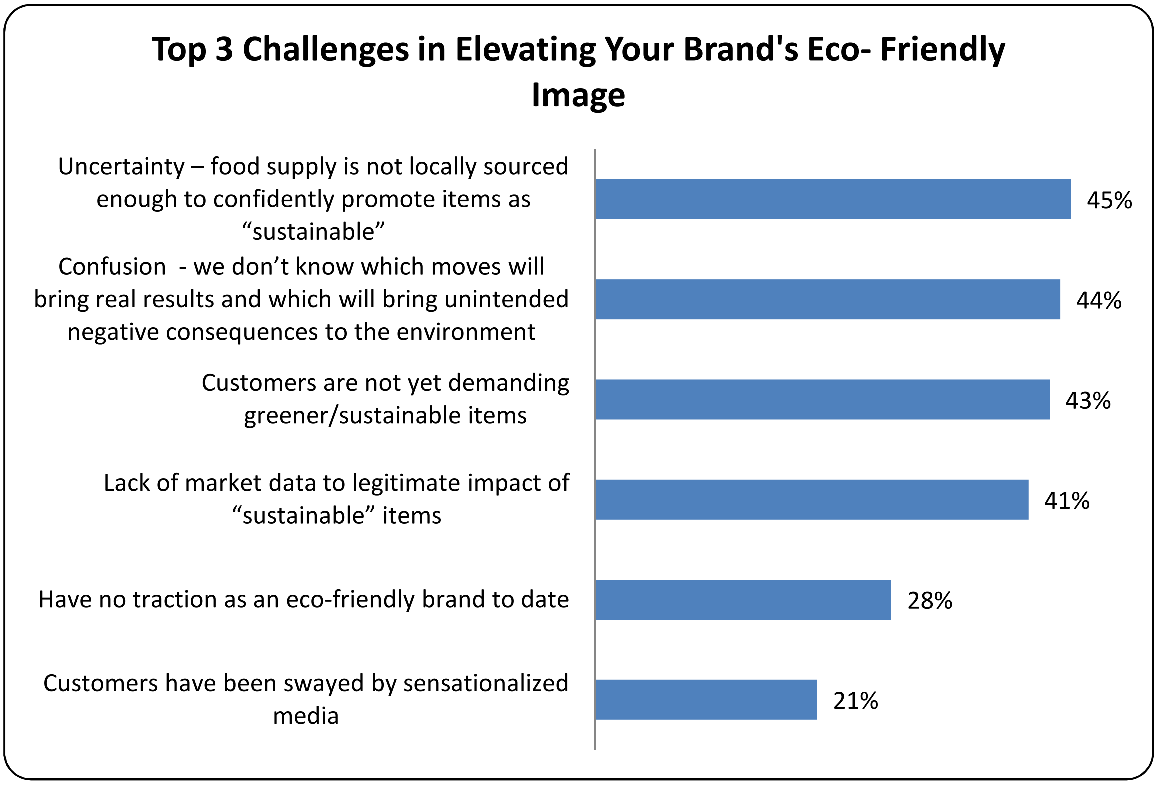
As we will see later on in this report, any opportunity to boast about the environmentally-sound characteristics of those ingredients may help justify passing on those rising food costs to customers – organically sourced, locally grown and ethically treated foods command a premium in certain markets. However, no restaurant is interested in watching its profits drained to wasted energy costs; 46% of respondents are challenged by wasted electrical energy; another 38% by watching fuel-based heat and energy costs quite literally fly out the window.

Wasted energy costs are an even greater challenge for the largest retail chains: 55% of those operating one hundred or more restaurants rate electrical energy costs as their top challenge, while mom and pop and small chain restaurants remain far more focused on ingredient costs. This is somewhat understandable, as larger restaurants with more buying power have likely already conquered many of the source-pricing issues smaller restaurants still grapple with on a daily basis. However, small restaurants are well-advised to take a page out of their bigger brethrens' playbooks and start combating needless, wasted energy even as they focus on driving down ingredient costs. There is no reason these two fronts must be fought sequentially.

STILL MUCH WORK TO BE DONE

When asked about the difficulties they face in elevating their brand's eco-friendly image, our respondents tell us they need more resources. Forty-five percent are hesitant to act due to uncertainty – food supply is not locally sourced enough to bet the farm on promoting items as "sustainable" (Figure 5).

Figure 5: Lack of Clarity on what the Customer Really Wants



Source: RSR Research, February 2010

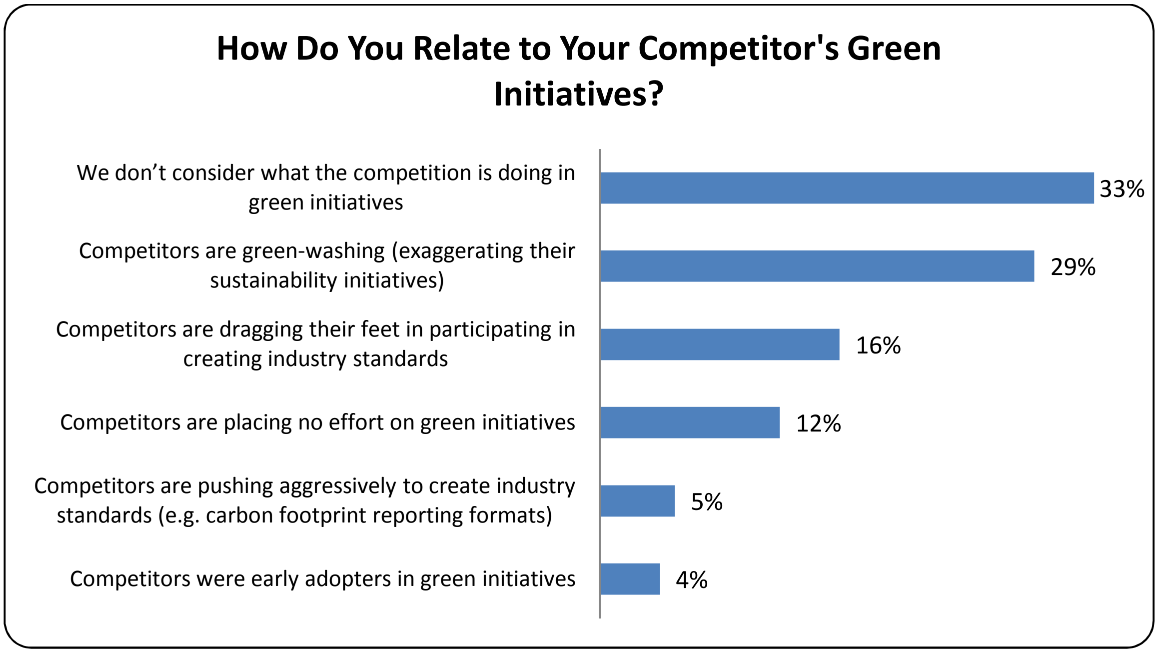
Further, another 44% say they are too confused to make "green" moves confidently. This is the first data we've seen in our research as backlash to "greenwashing" or "green sheen" – the notion that too many processes, products and practices are being spun as environmentally-friendly, before their true effect has been fully vetted.

It is heartening to see that our restaurant respondents' intentions are in the right place, as they are more interested in processes that will have truly positive environmental effect than enacting those which may have negligible (or worst case scenario, negative) effect on the environment. However, this is no excuse to merely "wait and see"; while new alternative products and processes' lifetime consequence may be difficult to predict, there is no doubt in the effectiveness of employing courses of action which focus on simple reduction.

DON'T CARE WHAT THEY'RE DOING ACROSS TOWN

In a fascinating break from most other retail segments and specific areas that RSR studies, very few restaurants –large or small, winning or lagging – care what their competition is doing about environmental sustainability (Figure 6).

Figure 6: When it Comes to Green, Competitors are Virtually Irrelevant



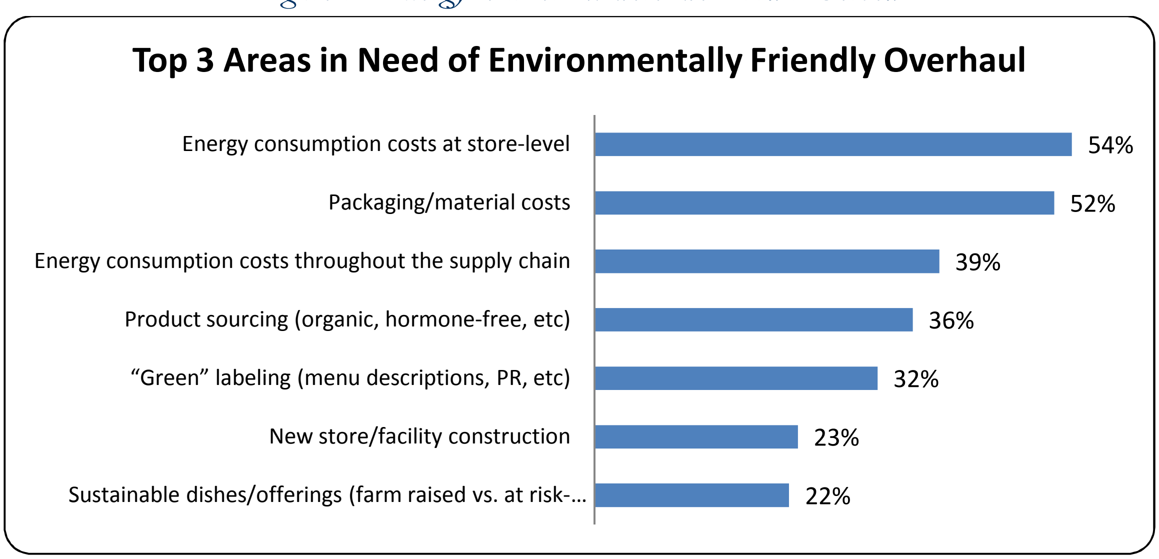
Source: RSR Research, February 2010

When we examine the opportunities green initiatives afford in the next section of this report, we will see some very different perceptions based on restaurant size and performance. Yet for all of their various reasons, put quite simply, restaurant retailers are striving toward their environmental goals for their own purposes: little consideration or regard is paid to how competitors are positioning themselves.

Energy and Packaging: An Old-Timey Song

Given what we've seen so far, it should come as no surprise that when asked about the three areas of the operation most in need of environmentally-friendly overhaul, energy consumption nabs two of the top three spots: 54% identifying the store and 39% identifying the supply chain as prime targets (Figure 7).

Figure 7: Energy Matters Where the Food is Served



Source: RSR Research, February 2010

When viewed by restaurant size, smaller retailers, undoubtedly with less supply chain insight, want to know more about how their ingredients are sourced so they can brag about them more (46% of mom and pops' vs. 17% of large chains). However, at the total response pool level, another theme emerges in the number two area in need of overhaul: 52% of all restaurateurs also tell us that ***packaging and material costs*** are a significant pain point.

Both of these issues – energy and packaging – are continuously reflected in our general retailer research as needle-in-the-eye issues. Yet both are prime examples of how simple reduction can hold tremendous opportunity – there is no gimmicky (and potentially harmful) alternative required to cut costs in either packaging or energy solutions; restaurateurs and their trading partners just need to use less cardboard, waste less plastic, use less electricity and waste less energy. As we will see in the coming pages, there is no shortage of "right now" opportunities.

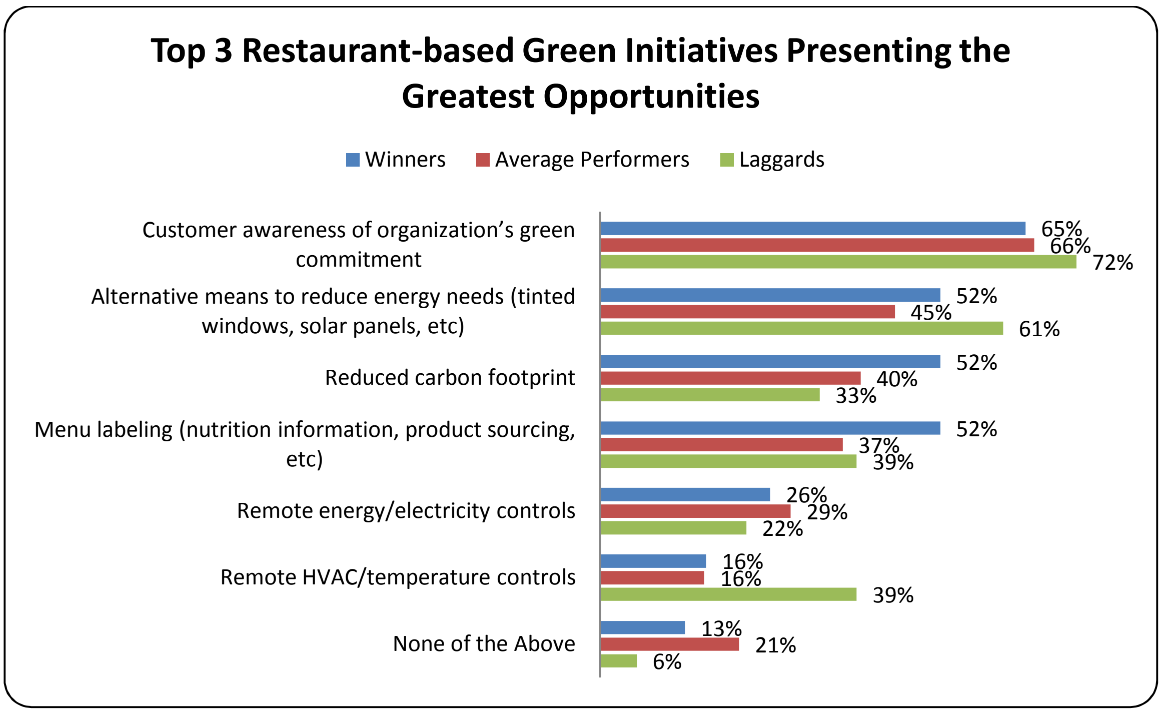
SECTION III: OPPORTUNITIES

Survey respondents have a clear and strong sense of cost-related opportunities, and certainly want to promote everything they do that has an ecological impact. As we'll see shortly, many don't even think about financial return on many of their customer-facing green investment initiatives. Yet it also became clear, when teasing out the opportunities they find most important, that they're shooting in the dark, hoping that feedback brings them the answers to what really matters.

EVERYONE WANTS TO PLEASE THE CUSTOMER… BUT UNANIMITY ENDS THERE

Restaurateurs across all performance levels rate increasing customer awareness of their companies' green commitment as a top-three opportunity. This is kind of obvious – once a company has made the investments, letting the customer know becomes an easy, and somewhat inexpensive opportunity. But this is the only opportunity upon which there is consensus across all performance levels (Figure 8).

Figure 8: Winners Take the Longer View



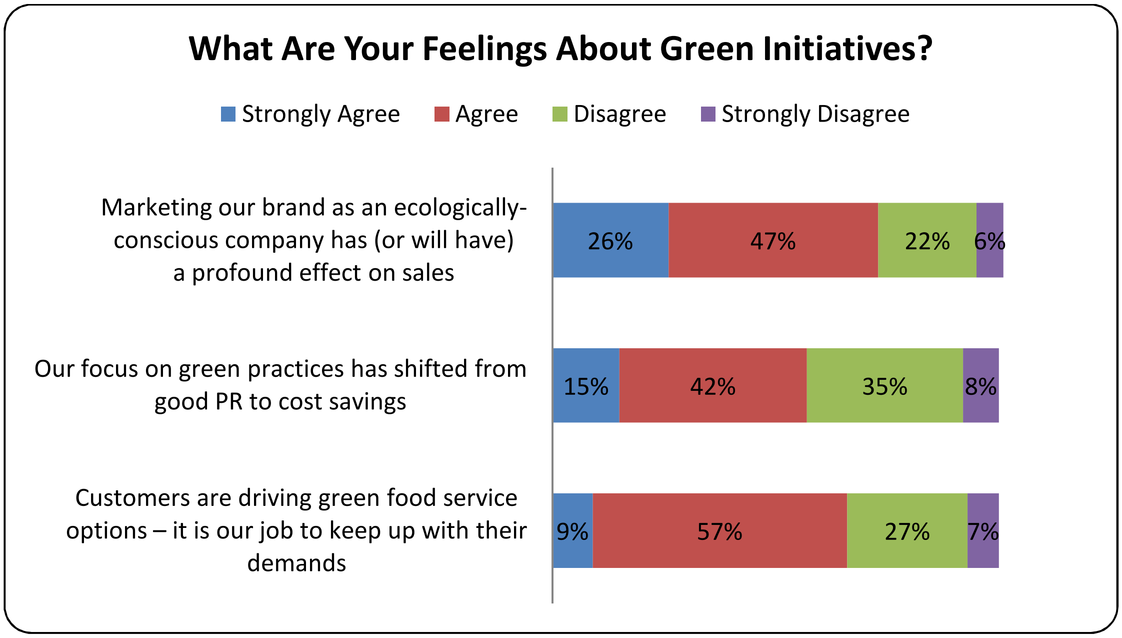
Source: RSR Research, February 2010

As a general rule, we find laggards jump from very high level ideas to very tactical, short term practices. This is typically a difference between their responses to business challenges and those of their over-performing peers. Green initiatives are no exception. Once we move past the notion of creating "customer awareness," laggards jump right to energy saving initiatives and look for ways to reduce energy and control HVAC remotely as top-three opportunities. This doesn't mean that Winners don't believe these initiatives are important: 71% cite a willingness to invest in technologies that limit restaurant-based energy costs. It is indicative of a kind of tunnel-vision. Still Winners take a longer view than laggards in perceived top-three opportunities, believing reducing their overall carbon footprint and labeling their menus with nutrition and product sourcing information are more important top-three initiatives. Average performers wait to follow winners' lead, with fully 21% finding nothing specific of interest.

Mixed Emotions, with Clarity on Value Still in the Distance for Most

On the surface, our respondents have somewhat lukewarm opinions on what their Green initiatives are doing for their companies (Figure 9).

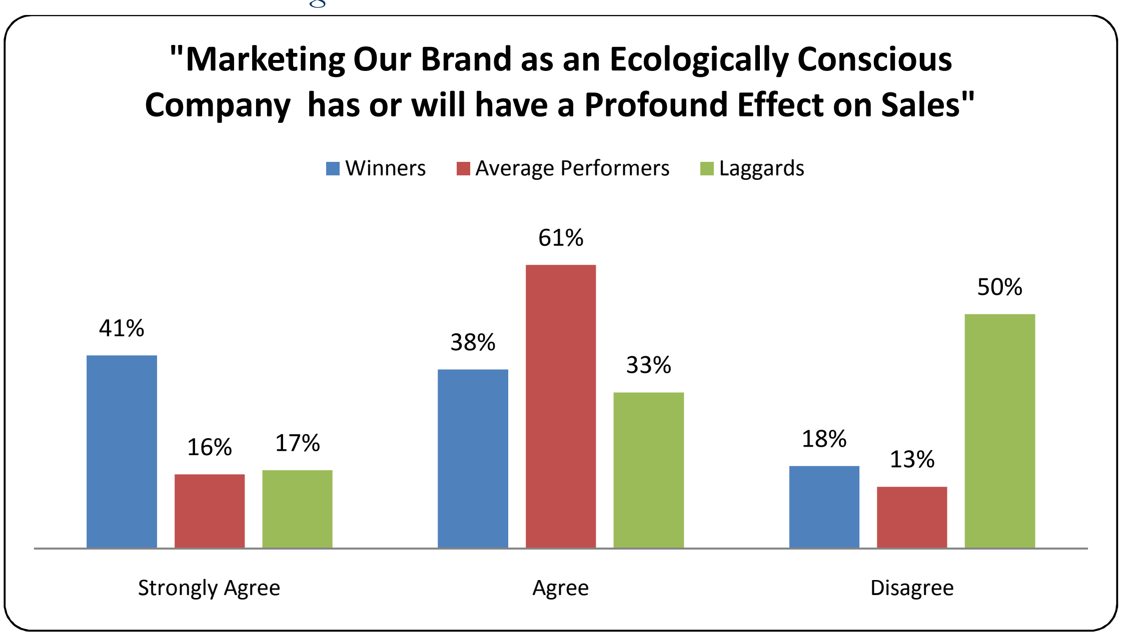
Figure 9: On the Surface, Lukewarm Feelings on Why They are Going Green



Source: RSR Research, February 2010

While there is nothing in Figure 9 that jumps out as a stunning sentiment when looking at one particular response based on sales performance, we find Winners with a more emphatic point of view.

Figure 10: Winners' Laser-like Focus on Sales



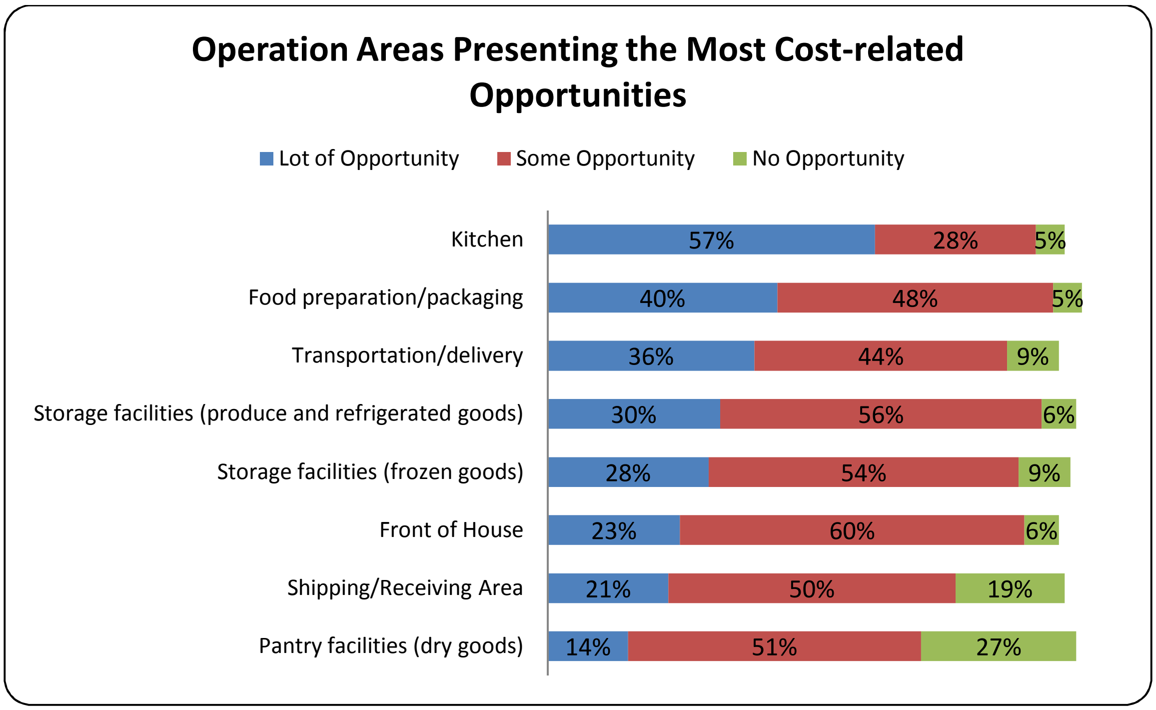
Source: RSR Research, February 2010

Of course, this does not diminish the importance of cost-savings initiatives, but Winners believe "first mover" status will meet with significant recognition, even if that recognition lags behind the investments they make.

Cost Reductions in the Kitchen Trump All Other Cost Benefits

In general, our respondents believe their biggest cost cutting opportunities lie in the kitchen, and in food preparation and packaging (Figure 11). However, there are some interesting differences depending on the number of restaurants operated.

Figure 11: Cutting Costs in the Kitchen Outstrip All Other Areas



Source: RSR Research, February 2010

The larger the operation, the greater the cost-cutting opportunity perceived in food preparation and packaging. Fifty percent of respondents operating more than one hundred restaurants cite this as having a lot of opportunity, vs. about one-third of smaller operators.

Somewhat counter-intuitively, **the opportunity to reduce transportation and delivery costs is most important to those operating three to ten restaurants**. Forty-four percent rate opportunities associated with reducing these costs as promising a lot of opportunity, vs. 26% of the smallest operations and only 13% of their larger counterparts. Clearly, even though their performance is generally on par with larger and smaller chains, the operator of three-to-ten restaurant chain is caught in the middle: large enough to spend money moving product from place to place, and too small to gain economies of scale by pressuring suppliers.

Perceived Benefits Vary Across Products

We expected to find the biggest packaging and production cost savings opportunities in frozen products – on the surface, one would think energy expended in producing, packaging and transporting these products would be highest for these products. Yet across all performance and revenue tiers, dry goods

were called out has having the greatest potential. Fifty-seven percent of respondents rated this category a top-three product, vs. only 45% for frozen goods and 48% for produce. We believe the waste associated with production, packaging and storage of this merchandise represents a seemingly quick win – and anything that reduces the amount of cardboard used is considered a goodness.

SECTION IV: ORGANIZATIONAL INHIBITORS

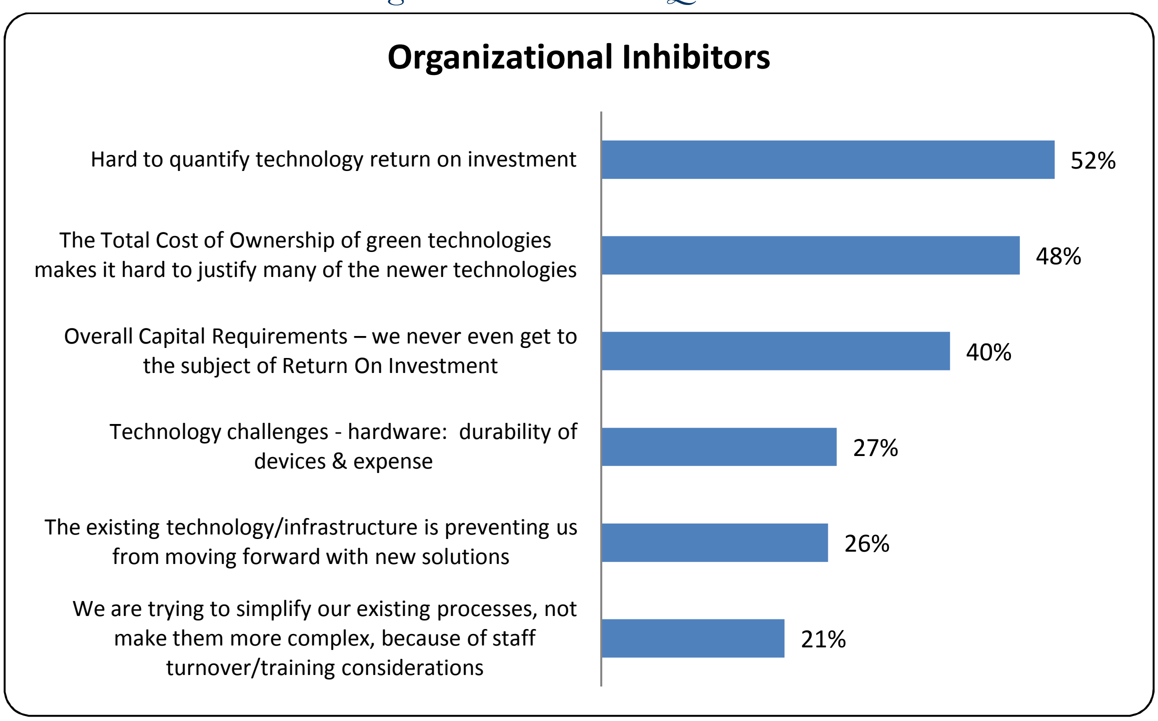
The first Earth Day, April 22, 1970 is considered by many to be the formal launching of the sustainability movement. The day is remembered by some as a momentous event, while others (including one of our report co-authors) remember it as an otherwise unremarkable day when festive green-painted trash barrels made an appearance on college campuses. It's fair to say that in the middle of the Vietnam War, most activists had more immediate concerns on their minds (like their friends' order in the newly drawn draft lottery). Through whatever lens one remembers the occasion, few can argue how long it took the movement to gain momentum. While our water, lakes, and rivers are measurably cleaner than they were at the dawn of the movement, debates on the causes or even existence of global warming continue to rage as do questions on what to do about it even if it does.

Cost Impacts Quantifiable, but Capital and ROI a Stickier Wicket

One thing is beyond debate. The cost of energy *in*efficiency is now quantifiable, measurable and can be tracked directly to the bottom line. And consumer sentiment appears to be turning towards wanting to "feel good" about individuals' impacts on consumption and what they put in their bodies.

With this much uncertainty, however, it's not surprising to see respondents report difficulty in quantifying Return on Investment (ROI), capital required to make those investments, and the ongoing cost of ownership for new technologies as the top three organizational inhibitors to moving forward with sustainability initiatives (Figure 12). There are simply too many unknowns.

Figure 12: Costs Create Questions



Source: RSR Research, February 2010

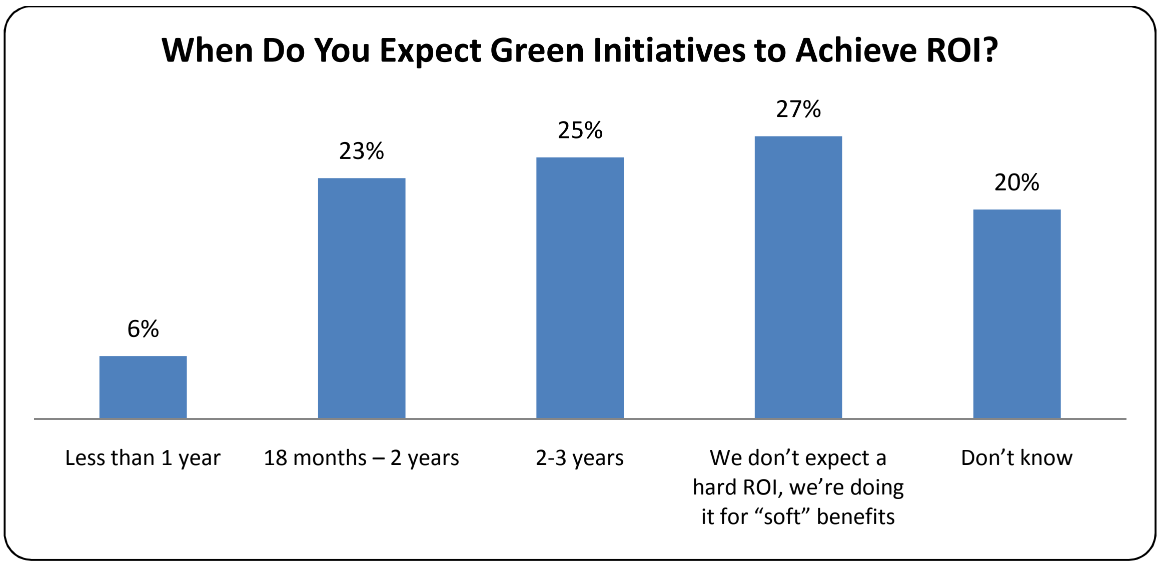
We see some rather unsurprising differences depending on performance level. Laggards are most concerned about capital requirements (63% site it as a top-three inhibitor vs. only 31% of Winners), and tend to take a more jaundiced view towards green initiatives in general (32% believe the value of the

technology is overstated, while only 14% of average performers and 10% of Winners cite this as a top-three issue). Winners and average performers are more interested in moving forward, if they can shoehorn new technologies and procedures into their existing tangle of infrastructure and policies.

"True Believers" Would Expect Faster Return on Investment

Low expectations for Return on Investment are evident – when asked directly how long they expect green initiatives to achieve ROI, respondents answer very conservatively, with only 29% expecting to see results in less than two years, and 47% either expecting NO ROI at all or having no idea when it might be achieved (Figure 13).

Figure 13: Expected Time to Value is Unusually Conservative



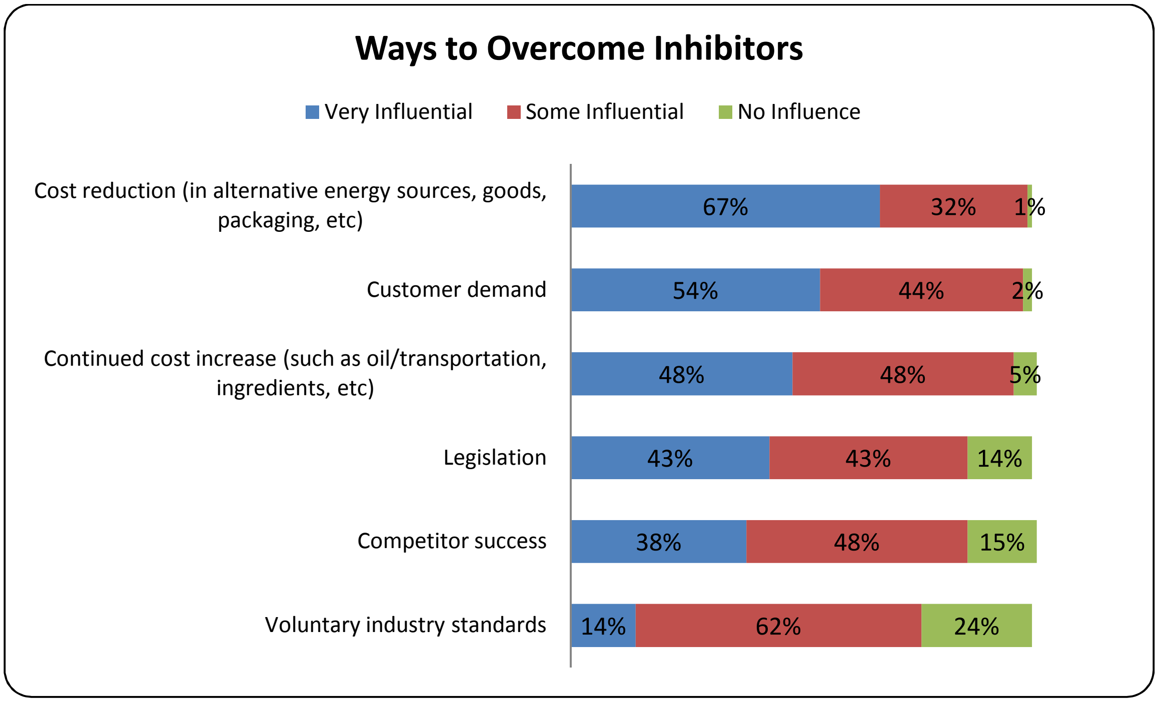
Source: RSR Research, February 2010

Not surprisingly, given the uncertain time to value, many pilot programs beyond traditional types of initiatives have been lightly funded. Those respondents with the greatest number of restaurants have made the largest investments, although almost a quarter or respondents aren't sure what the total investment has actually been.

Making True Believers by Saving Them Money, or Through Customer Demand

If cost is the issue, and ROI uncertain, the obvious way to overcome those issues and concerns is to deliver savings. Our respondents certainly agree: 67% report cost reduction through alternative energy, goods or packaging is one way to break through the logjam of uncertainty surrounding the value of green initiatives (Figure 14).

Figure 14: Cost and Customers Can Change Our Minds



Source: RSR Research, February 2010

Alternatively, continued increases in the cost of ingredients, transportation or energy would also act as a motivator to get restaurant operators riding the green bandwagon.

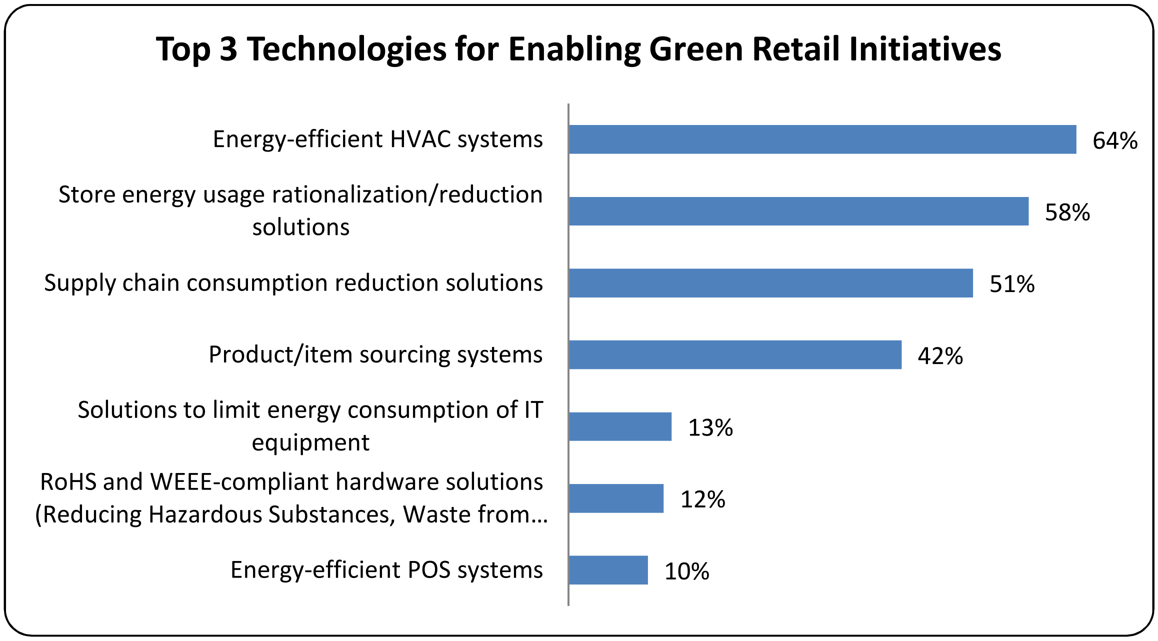
Absent cost as a driver, customer demand would have at least some influence on the decision-making of 98% of our respondents. Legislation would be less influential, and in general, our respondents would prefer to have very little to do with voluntary industry standards. Fears of bureaucrat-driven cost increases no doubt color their opinions on legislation or standards.

SECTION V: TECHNOLOGY ENABLERS

EFFICIENCY TAKES CENTER STAGE

When it comes to the specific technologies best suited to help today's restaurants run better – and be more ecologically responsible – efficiency is the name of the game. These efficiencies span installation of new restaurant-based systems, as well as management of existing systems and equipment (Figure 15).

Figure 15: Technologies Enabling Efficiency in the Store are Highly Prized



Source: RSR Research, February 2010

Sixty four percent of all respondents cite energy efficient heating, ventilation and air conditioning (HVAC) systems as the key to cutting cost, reducing waste, and becoming better global citizens. Another 58% say that store energy usage rationalization and reduction solutions are the way to achieve that goal in the field. Restaurants of every size and stripe are tired of losing profits to lights and POS systems that accidentally stay on all night, heated rooms that aren't in use, and employees playing "thermostat wars" that send HVAC systems fighting against themselves. In fact, often, if an employee manually raises the store's temperature just a few degrees, not only will that simply waste more heat, but it can actually force refrigerators and freezers to work harder, adding up to additional wasted electrical costs. By the same token, changes in air conditioning can have adverse affect on kitchen equipment; bottom line, HVAC controls should not be left to individual judgment, and in most restaurants today, additional regulating technologies are required than are already installed.

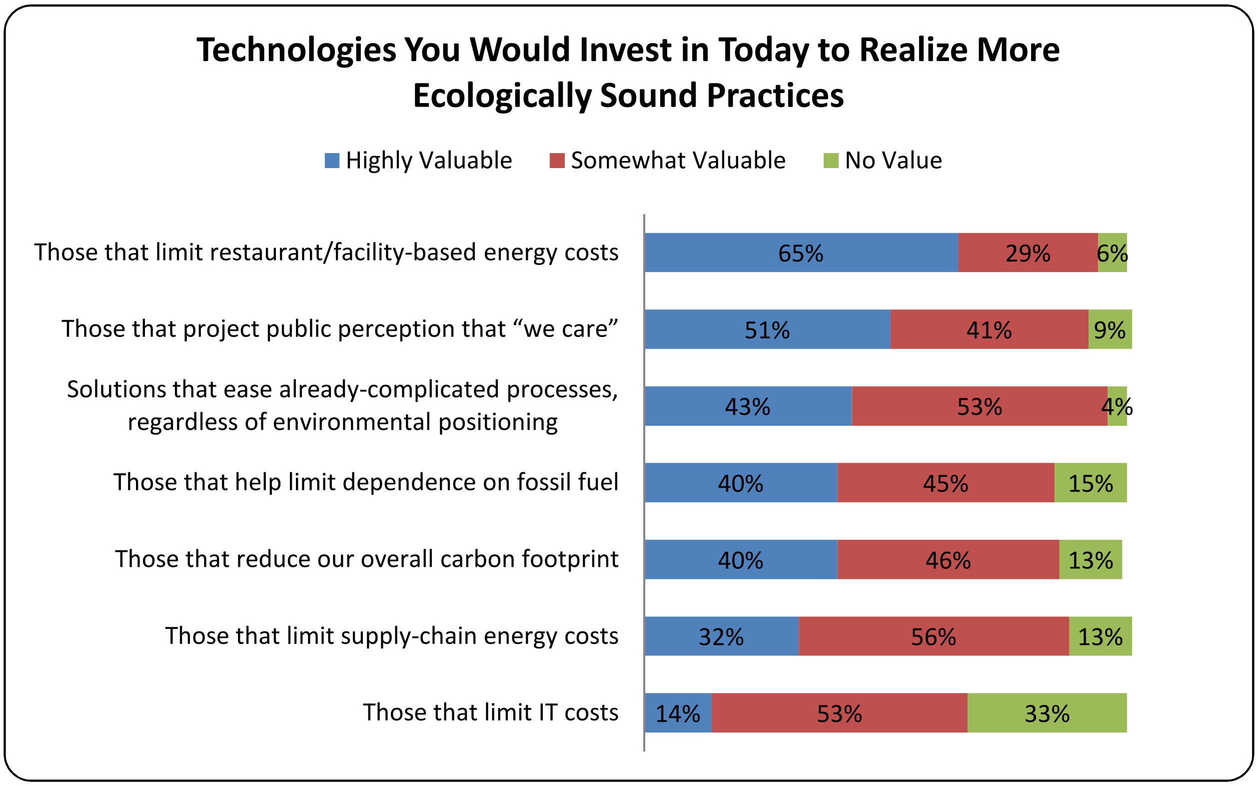
Winners are even more focused on efficiency-based technologies. **Sixty-one percent of the best performing restaurant organizations identify store energy usage rationalization and reduction solutions as top-three technologies, vs. 44% of laggards**. When viewed by size, restaurateurs of all sizes agree that *the most effective technologies for enabling greener retail initiatives are in the store*, as the smallest and biggest focus on these store-energy rationalization/reduction solutions (59% and 71%, respectively). Small and mid-size chains set their sights on their in-store HVAC systems (75% and 71%). At every point in the

spectrum, sourcing and supply chain technologies pale in comparison to those introducing greater efficiency to the store.

AN OPPORTUNITY FOR EDUCATION AND INVESTMENT TODAY

Our restaurant retailers are clearly willing to invest in those that limit store and facility-based energy costs. When asked about using existing technologies to realize more ecologically sound practices, 94% indicate they find value .They also appreciate those technologies that ease already-complicated processes and those that project the public perception of "caring" (Figure 16).

Figure 16: Today's Investments will Limit Costs and Improve Public Perception



Source: RSR Research, February 2010

Interest in technologies that project this perception reminds us again what we saw in the Opportunities section of this benchmark: restaurateurs strongly identify with building a green brand in the public's eye.

Winners are more interested in reducing their overall carbon footprint (52% of Winners identify such investments as highly valuable, vs. 33% of laggards). This raises a very interesting point, since nearly all of the opportunities our restaurateurs find most intriguing *automatically* reduce the organization's carbon footprint: energy reduction - whether electrical or fuel-based - inherently lowers the amount of fossil fuels dug out of the earth. Reduction in packaging brings the benefits of using fewer resources and chemicals during the production cycle, and at the end of life, relegates less rubbish to burn in waste plants or to spend eternity in a landfill.

Do the best-performing restaurateurs simply have a greater understanding of the relationship between efficiency and reduction in carbon footprint? Based on a review of performance-based responses, they certainly seem to so far. In a nutshell:

- Restaurants of all sizes want to reduce cost – and waste;
- Restaurants of all sizes want to tell a green story (a smaller carbon footprint story) to their customers, yet many are confused as to how to do so; therefore,
- Those solutions which don't seek to boil the ocean, but simply to reduce the amount of resources already in play – efficiency-based systems – such systems can be used to accomplish *both* of these goals at once.

The forward-thinking restaurant will find creative ways to get this message across to the savvy diner.

A Different Game

Lastly, it is worth noting that in our traditional studies, RSR focuses the Technology Enablers section primarily on the types of hardware and software solutions available to end-users. With environmental sustainability initiatives, it is important to recall that some of the best opportunities available to restaurants rely not only on technology, per se, but rather on the ability to view sustainability as a ***strategic issue across the enterprise***. Those restaurants who gain the most in all three segments - cost savings, waste reduction, and customer loyalty – will reap these rewards as a result of their commitment to rethink virtually every component of their daily business transactions with sustainability front-of-mind.

Restaurateurs who take on the occasional green tactical project here and there may gain some benefit, but never to the degree of those willing to prioritize sustainability in a method that brings about enterprise-wide cultural change. This requires training at all job skill levels – from executives to managers to store employees; efficiency opportunities wait at every transaction within the foodservice enterprise. We are well past the notion that green is a "fad"; for the most business-minded organizations in the world, environmental sustainability has become a bread-and-butter means to a better-run restaurant.

SECTION VI: BOOTSTRAP RECOMMENDATIONS

In a polarized society, when discussing an apparently debatable issue like global warming and sustainability, any objective work must avoid preaching one side of the story or another. To be actionable, our recommendations must stand on their own merits and make good business sense. With that in mind, we present the following:

Expect Return on Investment for Cost-saving Initiatives Only

Our respondents are clear: brand-building is an important part of the "Green" puzzle, but benefits have yet to be clearly quantifiable. We believe that consumers will appreciate our efforts, but it's hard to turn appreciation into hard cash. Areas to be considered for near-term ROI include:

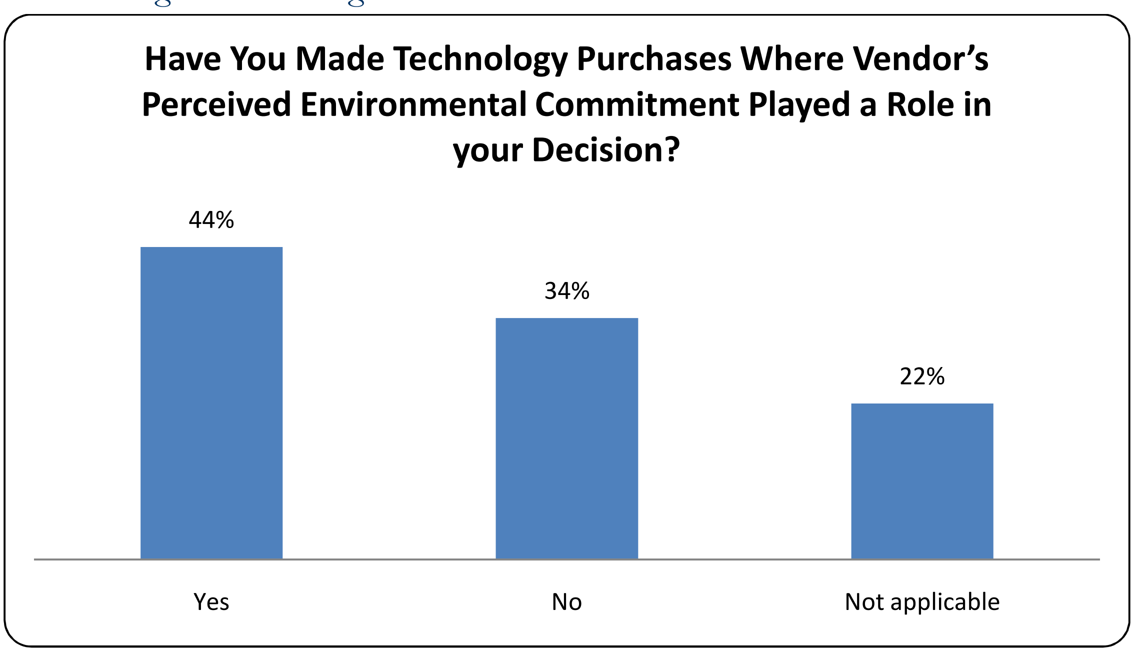
- The kitchen
- Food preparation facilities
- The store (both front and back of house)

Controlling HVAC costs with new, more efficient equipment and improved control and monitoring systems have a documented success story across all retailing segments. Technology vendors should be able to provide concrete examples of value gained, and pilot programs should create demonstrable results within your own enterprise.

When Planning Future Investments, Consider the Vendor's Commitment

As we can see in Figure 17, almost half our respondents have already made the vendor's perceived commitment to sustainability part of the selection process.

Figure 17: Moving Towards Vendors Who Demonstrate Commitment



Source: RSR Research, February 2010

We're certainly not suggesting Restaurateurs ignore cost completely – but vendors should be able to be close on cost, demonstrate incremental benefits (like energy savings), and make "doing the right thing" palatable.

Publicize Whatever Investments you DO Make

In an earlier report on sustainability in general retail, we highlighted the simple step of letting the customer see the "Green" sticker on POS equipment. The same is true in the restaurant business. It costs very little to identify those elements of the store that have a green component: local produce, and organically raised meat and poultry can be noted on menus and signage for minimal cost no matter how few or many outlets you may have. The ultimate brand-building is well worth that investment.

The Endless Brand-Building Quest

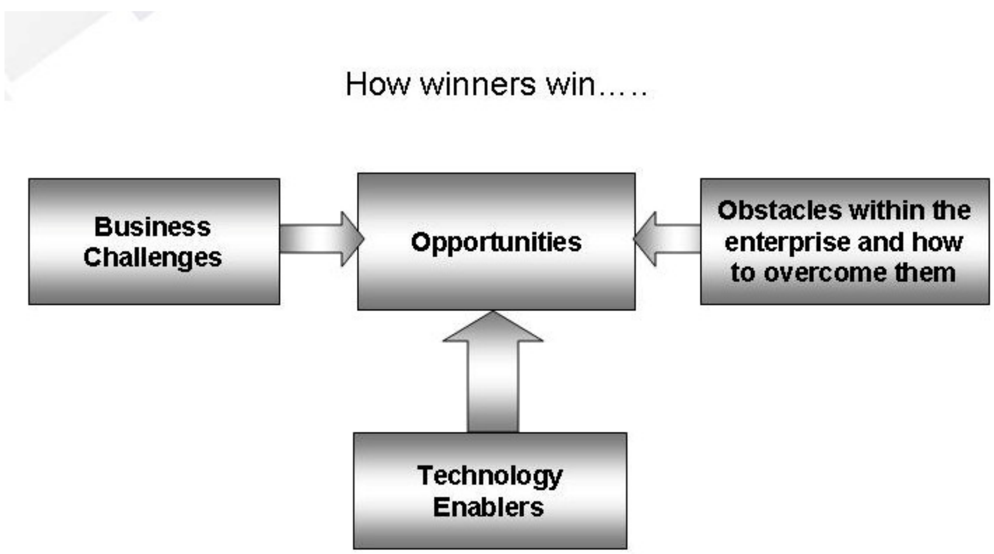
Over-performing restaurateurs clearly believe investments in sustainability will ultimately lead to increases in brand equity that will translate into dramatic sales increases. We find that more often than not, these Retail Winners have their fingers on the pulse of the overall populace. While we don't believe retailers should bet the proverbial farm on that kind of hope, we do believe taking the steps outlined above will put them in the best position to take advantage of that type of windfall should it come…and the cost-savings opportunities will bear fruit all along the way. It's a strong combination.

APPENDIX A: THE BOOT METHODOLOGY

The "BOOT" methodology is designed to reveal and prioritize the following:

- **Business Challenges** – Retailers of all shapes and sizes face significant **external** challenges. These issues provide a business context for the subject being discussed and drive decision-making across the enterprise.
- **Opportunities** – Every challenge brings with it a set of opportunities, or ways to change and overcome that challenge. **The ways retailers turn business challenges into opportunities often define the difference between Winners and "also-rans."** Within the BOOT, we can also identify opportunities missed – and describe leading edge models we believe drive success.
- **Organizational Inhibitors** – Even as enterprises find opportunities to overcome their external challenges, they may find **internal** organizational inhibitors that keep them from executing on their vision. Opportunities can be found to overcome these inhibitors as well. Winning retailers understand their organizational inhibitors and find creative, effective ways to overcome them.
- **Technology Enablers** – If a company can overcome its organizational inhibitors it can use technology as an enabler to take advantage of the opportunities it identifies. Retail Winners are most adept at judiciously and effectively using these enablers, often far earlier than their peers.

A graphical depiction of the BOOT follows:



APPENDIX B: ABOUT RSR

Retail Systems Research ("RSR") is the only research company run by retailers for the retail industry. RSR provides insight into business and technology challenges facing the extended retail industry, providing thought leadership and advice on navigating these challenges for specific companies and the industry at large. We do this by:

- **Identifying information** that helps retailers and their trading partners to build more efficient and profitable businesses;
- **Identifying industry issues** that solutions providers must address to be relevant in the extended retail industry;
- **Providing insight and analysis** about a broad spectrum of issues and trends in the Extended Retail Industry.