Sweetgreen's Growing Business Strategy

Carla Dworkind

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ABSTRACT:

Sweetgreen, a Washington based, healthy casual food corporation, initiated its operations in 2007; almost together with one of the biggest financial crisis the American economy experienced, where the restaurant industry was significantly affected due to unemployment, combined with a reduction in the Americans disposable income.

Sweetgreen , managed to overcome these difficult times, by taking advantage of the growing wave that the environmentally conscious and healthy food segment was experiencing, which was showing a sustained 20% growing ratio from the mid nineties.

They`ve opened their first store in the restaurant crowded Georgetown area, and managed to succeed despite the competition and large variety of different eating options. Innovation, healthy fresh food in an upscale environment, a serious commitment with the planet and a true care for its vendors and customers, combined together with a good press management seems to be the main differentiation factors for the company

Today, they are running 7 different branches in the DC area, and have recently approached Philadelphia as their first experience far from their home town. Having analyzed how Sweetgreen excelled in positioning its brand and having grown in market so far in terms of store openings I'm supporting the viability for the following recommendation:

Growing strategy by combining new proprietary stores with a new franchising net work.

SWEETGREEN'S BEGINNINGS

Sweetgreen started off in 2007 by a group of Georgetown Business students that found a business opportunity in developing a healthy and environmentally friendly "fast casual" dining option. CEO Jonathan Neman along with Nicolas Jammet (CFO) and Nathaniel Ru (COO) decided to invest in an eatery in the affluent D.C. area of Georgetown. In a saturated market which holds almost 200 restaurants contained within 300 hectares the young food loving entrepreneurs managed to find a niche market for the friendly, fun, sustainable and healthy idea that they were trying to sell. Simply put in the websites' philosophy statement it is "food that fits."

They developed their idea in a Georgetown Entrepreneurship class after having noticed the need for healthy food options in the area according to their personal experience as undergraduates in the University. They believed the area lacked a healthy alternative where students would want to eat on a regular basis.

They decided that the location for their first Sweetgreen shop would be in Georgetown's historical burger spot Little Old Tavern on M st. and Bank, a landmark building which they decided would be an optimum place to launch they first store.

The development of the business in this first store was funded by 15 small investors which included funding from other Georgetown students, and from New York restaurateurs Joe Bastianich and partner chef Mario Batali. Other supporters of Sweetgreen include Seth Goldman from Honest Tea which they made the principal beverage sold in the stores as well as Stonyfield's farm CEO Gary Hirschberg which provides Sweetgreen with their yogurt. The start-up received a total of $850,000 of which they spent $170,000 to build the shop on M st.

Today the company has expanded and has 8 different locations seven of them which are in D.C. and an 8th one which they have opened this year in Philadelphia. The company to date has about 250 employees and grossed sales of about $845,000 and $1.3 million in 2007 and 2008 respectively. Their expansion has raised a second round of investing of about $2.1 million dollars in 2010.

VISION:

Sweetgreen's founders have sought to create a business that above all contributes to their community by providing an eco-friendly, healthy and environmentally conscious option when picking out a meal. They are seeking to be more than a fast casual eatery option. While food is their main product they believe that their company provides an educational and playful opportunity for all of its customers. Their value proposition is aligned with their deepest and intrinsic core ideas

"We believe in serving real food, cultivated by real people that we know, to customers that we care about. We work to live and have fun with friends and family. We don't believe that you can have a successful business in an unsuccessful community. Balance keeps us aligned"

PRODUCTS:

Sweetgreen's menu is mostly comprised of two different options: salads and frozen yogurt. Salads comprise about 65% of the sale while yogurt comprises 35%.This varies seasonally though in the summer yogurt sales share will reach 40% while in the winter it may go down to 25%. Suppliers for these products mainly are local farmers in the proximities of the different stores' physical location. Farm locations are within the DMV area except for three of their suppliers which are located in Pennsylvania to supply their newest branch in Ardmore. Recently Sweetgreen has developed relationships with bigger organic companies such as

Earthbound Farm and Stoneyfield to supply the stores when local farmers don't have the produce available or in season. Stonyfield is also the supplier of organic yogurt for their fro-yo.

SUSTAINABILITY

One of the core values in the company is sustainability. For the young owners, it was not only a matter of selling organic food but they wanted to build a business around the whole concept of environmental responsibility. Their sustainable approaches include:

- Packaging which is compostable and biodegradable.
- Utensils and cups are made from corn; they also sell reusable salad bowls called "salad blasters."
- The packaging is plant-based and not derived from oil.
- Bags and napkins are 100% PCC.
- Orders can also be packed in re-usable canvas bags.
- Multiuse towels are used for clean up
- All branches are powered with wind energy from Clean Currents and some of them already have solar panels.
- Materials used in the construction of their location are reclaimed and FSC certified.
- Energy efficient LED and fluorescent lighting is used.
- Reclaimed wood and bowling alley wood is used for floors and furniture.
- Paint used contains low VOC levels
- Sweetflow (sweetgreen's mobile truck)

MARKETING STRATEGY

Brand building in the company has been and is to this day one of their most important objectives and attributes. There are two main lines of marketing strategy which Sweetgreen has used to leverage their operations:

Social Media Approach:

According to the Nielsen Company, social networking and word of mouth promotion has nearly tripled its use from 2008 to 2009 averaging from 6% of online time in social networks to 17% respectively. One of the main advantages of Sweetgreen, being such a young company, is its familiarity with technologically savvy tools which can be used to communicate and establish a better relationship with customers. Facebook, Twitter, Foursquare, Vimeo and Exit 41 are among the social media tools they have been using. Promotional activities include, free merchandise or food for using foursquare and checking into Sweetgreen, contests for prices for using twitter and tagging Sweetgreen. Facebook can also be used through a new application called exit41 in which you can place food take-out orders through the company's Facebook page.

Sustainability Approach

Sweetgreen's sustainability approach to the company has also a great deal to do with marketing. From the seed embedded menus that can be planted into the ground and grown into wildflowers, to the free toppings offered every time a customer brings a re-usable salad bowl, sustainability is an intrinsic part of Sweetgreen's promotional strategy. Through Twitter they have created a campaign that gives a $1000 price to the best rap video about the benefits of organic food. Even the CEO's of Stonyfield and Honest Tea made a video. Other examples of sustainability used as a marketing tool include their upcoming Sweetlife Festival whose proceeds in part will be used to the Jamie Olivier Foundation that fights for promoting dietary health and food education.

CUSTOMER PROFILE

According to the company Sweetgreen's customer demographic is mix of people. Students make up about 30% of their customer base but it is also comprised by young professionals as well. In their Georgetown location Sweetgreen has become a good place for young professionals to eat at. Considering its average price range of $10 for a meal in relation to the surroundings restaurants in the area which range from $20 to $30, it is a cheap and healthy alternative which this demographic is interested in. Locations to where it has expanded within D.C are targeting the same sort of age bracket as customers. Sweetgreen's customer base may be defined as a young, eco-friendly, food avid, healthy eater.

According to the U.S. Foodservice Landscape of 2010, there are specific behaviors that characterize the "Eco-friendly foodies." The profile is characterized by:

- Passion towards food, tendency to cook at home
- Preference towards organic food and environmentally friendly products
- Have culinary expertise and like to experiment with different cuisines
- Stay away from junk food and control fat intake by reading labels and nutritional value information.
- Tendency to spend more on food in general, because healthy food is more expensive.

This group is formed by a slight predominance of women over men; mostly white between 25 and 34 with annual income over 75k. A second group that represented about 10% of a U.S. foodservice survey sample is the "Healthy Eaters" (which are more interested in the health rather than the culinary aspect). This group is between 18 to 34 years and has a greater tendency among them to be males than females.

FAST-FOOD RESTAURANT INDUSTRY

While many US fast food operators continue to grow through international expansion, growth in new domestic stores, both company owned and franchised, has slowed, due to market saturation and a struggling economy. What growth there has been in the US has primarily been through franchising.

According to Euromonitor, fast food value sales declined by less than 1% to US$181 million in 2009. However, fast casual dining was the fastest-growing area in 2009, with a 2% current value sales increase. Sweetgreen falls into a specific subcategory within the fast-food industry in the United States which is the fast-casual industry subcategory.

According to Franchise Times fast casual is defined by the following categories:

- Higher price points than fast food restaurant. Fast casuals average between $7 and $11
- Targeted at adults. Fast casuals are largely aimed at adults who want more upscale fare.
- Upscale décor and atmosphere
- Pay at the counter. The food is made fresh and is either brought to the table or the customer is called back to the counter.

The fast food market remains highly saturated in the US, offering little room for growth. Successful fast food will have to continue to innovate and provide value, as value is the key driver of the fast food channel.

Additionally, as consumers' taste preferences change and they desire healthier alternatives, fast food operators will need to work hard to offer products that meet these needs or offer greater customization of food products.

Leading players will continue to innovate to gain share. However, they must not stray too far from their core products as to alienate loyal customers who seek a consistent product mix. They will also need to promote value in ways other than just price, for example through brand experience or support of local communities.

The US foodservice landscape 2010 states that the fast casual subcategory weathered the recession better than their standard quick service restaurants because they have been able to avoid steep promotional discounting because they continue to leverage their positive health, quality and ambience brand images. Many fast casual players draw historically from higher-income consumers, who have not suffered from the same unemployment rate increases. These same consumers may also be more attracted to fast casual brands than standard quick service restaurant brands when trading down from a casual or fine dining restaurant.

The fast casual segment of fast food/ quick service restaurants has distinguished itself on the strategy that food perceived as more healthful and of higher quality than "fast food," when served in an environment with enhanced "trend-forward" ambience, can demand higher price points.

RECOMMENDATIONS

One of the key recommendations for Sweetgreen seeing that their path is to continue to grow as the trend has shown so far is to basically keep growing. By this I mean to choose to continue growth in selected cities (according to the criteria Sweetgreen has used thus far in terms of geographically optimum areas for investment. I would recommend growth to continue to come through means of the company's own investors into new stores combined with an innovative option for expansion: the development of a franchising network.

Industry figures have shown a growth in this niche market for fast food. According to the National Restaurants Association`s annual survey of more than 1800 professional chefs, are picturing the future as a sustained increase in sales for Health Food Restaurants. The industry is soaring so fast that is forcing giants fast food chains such as McDonald's or KFC to review their product portfolio strategy. Even these leading food sellers are looking for alternative healthier products to sell to a more food-conscious. As healthy eaters market keeps growing I believe expansion is within the recommendations for Sweetgreen.

In terms of opening various new locations on their own it is only a matter of whether Sweetgreen can keep maintaining profitable margins as well as additional investor rounds that will fund the additional stores. To seek for a sustained growth ratio would require significant cash out from the company itself. The franchising strategy is unique in the sense that it will allow profits to stay mostly intact (except for the costs of franchising) and it won't add additional pressure to the entrepreneurs if investors keep betting on the success of the company and it while it incurs the risk of a future market slump. Franchising minimized market risk in the sense that if sales go down they will simply be receiving a lower amount for royalties instead of having to face the possibility of defaulting payments. Franchising does not present significant entry barriers such as significant monetary investments. Also Sweetgreen's current brand image and position in the market I believe has made it a desirable company in terms of franchising.

Putting the project in place would contribute to 4 new sources of profits:

- Royalties: The royalty based in a % of the franchise sales

- Advertising Surcharge: There would be a surcharge to proportionally fund some of the Co. advertising expenses.
- Initial Down Payment: Once the formal contract is signed, the franchisee has to pay the entering cost or the membership quota.
- Fee/Margin On Raw Material Purchases: As the safest way to quality assure in these type of businesses, it is customary that the franchiser will become the exclusive supplier of the strategic- sensitive goods and materials, such as fro-yo, vegetables, fruits and drinks, items that are going to be provided on a store to store basis by the franchiser

It will also require the need for investment for the following things:

- Architect expenses, -Store building design and its dressing
- To adequate 1 or 2 stores, in order for them to become the business pilot site where new franchisees would be trained
- To install customer service areas where people are available in order to support franchisees.
- Manuals, for Norms and Procedures should be written
- Legal expenses for drafting the contracts
- Some audit activity should be planned
- To build or contract distribution capabilities for products provided to franchisees

I believe there are 3 screens the company has to pass through in order to define the franchising project's feasibility. If the screens don`t represent an obstacle for the company at all; it is very likely the franchising project would become a promising opportunity.

1) Has the proposed product or service Sweetgreen is offering experienced a sound commercial success in a sustainable manner?

2) Whichever were the drivers that enabled Sweetgreen's success, are they replicable, would you say they are transferable, Can those drivers be taught? Is there any restriction in transferring this knowledge?

3) Do you have a strong brand image perceived and recognized by your customers?

After analyzing Sweetgreen's commercial success, strong corporate culture and marketing strategy and positioning I would say that these are barriers that the company may be able to surpass.

Pros

•Less money required than to pursue the growing strategy with own stores

•Guarantees a faster store opening rate

•Mixed strategy: cash flows coming from the franchise operation, can be directly allotted to build up new stores

•Sweetgreen's brand will be flagging in more locations than with the moderated growing option

•Sweetgreen will be tackling the market wave right on time

•By entering into the franchising business Sweetgreen will be leveraging your financial ratios

•There would be 4 new sources of incomes

Cons

•Possibility of putting company brand at risk

•Finding a suitable franchisee with the same basics values and beliefs as Sweetgreen may be hard.

•Monetary investment to start up the franchise

IMPLEMENTATION PLAN

- Entrepreneur's role during the implementation process

To put in place and coordinate all the required activities for the start up of a new franchising organization in a reasonable period of time, is something Sweetgreen entrepreneurs won't be able to do by themselves. Therefore specialized professional support will be needed.

However, even though Sweetgreen's founders will have to resort to help, their active participation and deep involvement along the whole implementation process will be necessary as well. If the founders do not express their commitment to the franchising initiative then it will become a difficult task to implement it.

- Why franchising?

According to "Small Business Startups"[1] 87 out of every 100 new small businesses fail within the 1st year, while another 8% fails after its 5th year. In America, 150,000 new businesses open every month while another 150,000 are closing their doors for the final time as well. Although these numbers scare people they are an increasing reason that explains why it may be better to turn to a franchise initiative rather than running your own business from scratch and at our own risk. Frnachisers might find these statistics an attractive reason to invest in franchise rather than invest in a start-up. For Sweetgreen this shows that there is a clear market for people interested in investing in the franchise initiative. As explained by "Franchise Statistics,"[2] amazingly only 5 out of every 100 new franchises fail. This is a much lower number compared to the amount of start-up failures.

On top of this, according to the Franchise Foundation Report[3], the franchise categories predicted to do specially well in the fore coming years include: education, fitness, senior care, frozen yogurts, pets, children's services, personal care and the newly-emerging green, eco friendly category.

Not only does this aforementioned source state two out of the eight categories that are an intrinsic part Sweetgreen's core business, but also it explains how these categories in particular were able to outperform during the 2008 recession and will likely continue to do so in the forth coming years.

- Identifying the key success factors

In order to develop a franchising strategy, not only will Sweetgreen require a sound commercial success but also a set of key success factors that will make this commercial success feasible. For this the company will have to assess which factors they need and assure that these factors are not unique but replicable onto other situations.

A commercial achievement might be the result of a series of singular facts, or regional characteristics that will not be found in another location. Also it might be the result of certain personal attributes of the management team. Such uniqueness is not transferable, taught or replicable.

If Sweetgreen can make sure none of the non-replicable success factors become an imposition then it will have a likely chance of succeeding by transferring their replicable success factors. Among these we may include enablers such as price, business segmentation, atmosphere, quality, service, speed, convenience, health & fitness care, etc. A comprehensive dissection of each "know how" counterpart should be explained and included in an operational manual for franchisers.

- Brand registration and trademarks

Even though Sweetgreen is registered as a trademark brand as of June 2010 it is important to mention that as a company considering to implement a franchise initiative it must have all of its licenses in order. For instance it is recommendable to advocate for a comprehensive approach in protecting intangible assets such as the company's commercial name (in the case it differs from the brand trademarked name), its logo, the typography and the corporate colors. In some cases, it might also be necessary to internationally protect all these intangible assets. It shouldn't be forgotten to properly protect the internet dominium as well.

It is also important to emphasize that intangible value may not only reside on the company's brand attributes but it may be present along the company's whole processing and servicing chain. In the case that Sweetgreen possesses intangible value on any of these processes it might be recommendable to trademark them as well specially if they will be sharing them with a franchisee.

- Demand analysis

Market segmentation is crucial if the company has already opted to pursue growing through the implementation of a franchising strategy. It will be necessary to take a look at demographic information specific to the geographic area where Sweetgreen is interested in putting a franchise.

The type of operation Sweetgreen is running should take into consideration factors such population density in an area or information on how a population or business community within that area is growing or expanding. For example the young professional customer target for

Sweetgreen's Georgetown location could be replicated by finding new areas where the same demographic is clustered.

Also to successfully run the franchise operation, it would be necessary to segment an geographic area in several pieces in order to assign future exclusivity agreements with each franchising prospects. It is not in Sweetgreen's and the franchisee's best interests to have two franchised locations close to each other and competing.

For the partitioning of areas it is necessary to develop a study on socioeconomic aspects of the population in the specific area, revealing consumption habits or preferences and helping the company to do further segmentation by ages or disposable income for that region.

- Defining the franchisee profile

If there is a decision process in which Sweetgreen must divert crucial attention and care to it is the process of picking a respective franchisee. The failure to choose a franchisee that cannot replicate all characteristics of the business under their own management would greatly endanger the success of the project.

According to Stonyfield and O'Naturals café founder and CEO Gary Hirschberg the process of searching for new franchisees entails the following characteristics. "We are looking for a few people with the resources, the business experience and the commitment to social responsibility to join us in a quick service revolution"

In a business that has succeed because its founders privileged passion, attention to detail, sustainability and community; it is of extreme importance to find people that not only want to invest in this commercially successful business but that are also aligned with the same principles and values.

It is safe to say that along with Sweetgreen's unique business model an control of the franchise profitability is not enough to ascertain whether said franchise is up to the level that the company's demands. It will be necessary to use more than a financial yardstick to assess how well the franchise replicated the business model. An assessment of mission and vision alignment would be optimum

BUSINESS PLAN

Continuing with the implementation steps I will proceed to calculate the costs of investing on a franchise, the expected income statements for a company owned location vs. a franchised location and an analysis of the returns by calculating expected cash flows from the view of the franchisor Sweetgreen and the view of the prospective franchisee. This way will Sweetgreen not only elucidate the profitability of a franchising opportunity but will have a base to sell the project onto prospective franchisees.

- Franchising Cost Information

Several pieces of information have been gathered from different sources in order to check how the franchising business is doing and determining the general costs that are involved when investing in a franchise. These are the sort of estimates that the company should make based on the business proposal that they will present to potential franchisees.

On Table 1 we can see basic financial information related to franchising from 4 different fast food restaurants within the industry. Two out of the four companies analyzed here have the same product category as Sweetgreen. Freshberry and TCBY are companies that sell natural frozen yogurts. I thought it optimum to choose products within this category to estimate Sweetgreen's franchise expected financial costs. The reason for this is that both of them lie within the product category, and also because TCBY is the largest frozen yogurt franchiser in the United States.

The third franchised restaurant chosen as a reference point is O'Natural, a quick service restaurant similar in some concepts to the Sweetgreen business model which coincidentally as well is owned by Gary Hirschberg, CEO of Stonyfield and main provider of Sweetgreen's frozen-yogurt. Finally McDonalds was also taken as a reference because it is the main franchising business in the world.

Table 1: Estimating Franchising Costs

	Freshberry	TCBY	O'Naturals	McDonalds	Sweetgreen*
Monthly Recurrent Expenses:					
Royalty Fee	6%	6%	5%	5% - 10%	5%
Advertising Fee	NA	3%	NA	NA	1.5%
Raw Material Surcharge	NA	NA	NA	NA	2%
Site Lease	NA	NA	NA	NA	NA
One Time Costs:					
Membership Cost	25,000	19,900	25,000	45,000	20,000
Min Store Set Up	171,000	142,000	720,000	120,000	170,000
Max Store Set Up	392,000	347,000	980,000	920,000	350,000
Additional Information Gathered:					
Contract Length	20 Years	5 - 10 Years	15 Years	Various	15 Years

*Expected

From the royalty stand point, market information showed that royalty charges are about 5 to 6 % calculated over net sales, except for McDonalds which is covering a larger range of 5% to 10% of the sales depending upon the location of the franchise. For this we estimated that Sweetgreen could have a targeted 5% royalty fee on sales compared to what similar business within their niches are expecting as well.

As for their add fee and raw mat surcharge, these will hold 1.5% and 2% respectively as a percentage of sales. The 1.5% is calculated on the base that the only values that are available are those of TCBY which is charging 3 % on sales as advertising fee. We believed Sweetgreen should start with a lower percentage on sales. Regarding the surcharge on the strategic raw materials I believe that the franchisee has the duty and obligation to buy strategic products from the franchiser in order to make sure that the franchisee will have no chances of compromising the product quality by buying cheaper ingredients or raw materials and consequentially putting in danger the value proposition of the business. Along with this procedure the company should establish a transfer pricing for the products that it is selling to the franchisee. It is a usual practice for the franchiser to make a margin on the raw materials sold. However, this is generally not disclosed publicly for which we have no reference point out of our three companies. An estimate of 2% of sales was made.

As for the one time costs, the franchising entering cost or membership fee is in general quite similar, ranging from $20,000 to $ 25,000, except for McDonalds, whose entering fee is up to $45,000. Considering Sweetgreen's premature nature in the franchise market $20,000 was considered as an optimum amount. The same for the store minimum and maximum set up costs which we lay below the lowest minimum and the lowest maximum at a range of $170,000-$350,000. Also it is a fact that Sweetgreen's first location cost $170,000 to launch.

After putting together information in Table 1, we concluded in a franchising pricing proposal for Sweetgreen, described as follows:

- Franchising Fee: $ 20.000
- Royalty over Gross Revenue: 5.0%

- Surcharge over Cost of Goods Sold: 2.0%
- Contract Length: 15 Years

Table 2: Income Statement Franchised vs. Owned

FRANCHISED VS. OWN	SWEETGREEN		
	Own Store	% on Sales	Frachised Store
Sales Revenue:	1,300.00	100%	1,300.00
Royalty	-	5%	65.00
Total Revenues	**1,300.00**		**1,235.00**
Cost of Goods Sold	(754.00)		(754.00)
Surcharge on COGS	-	2%	(24.70)
Total COGS	(754.00)		(778.70)
Gross Profit	**546.00**		**456.30**
Gross Margin Ratio	*42%*		*35%*
Operating Expenses:			
Leasing Cost	(70.00)		(70.00)
Selling Gen. & Admin.	(234.00)		(234.00)
Advertising Fee	-	1.5%	(19.50)
Total Operating Expenses	(304.00)		(323.50)
EBIT	**242.00**		**132.80**
Interest Expenses	-		-
EBT	**242.00**		**132.80**
Income Tax	(72.60)	30%	(39.84)
Net Income	**169.40**		**92.96**
Profit Margin	*13%*		*8%*

***All Values expressed in thousands**

- Franchised vs. Owned

As shown in Table 2, an income statement has been prepared for each business alternative (owned vs. franchising). Even though, risk is a business component that will never disappear, it can be mitigated and franchising is an excellent risk mitigation alternative, in Table 2 we will show how much profit the franchisee would be ready to sacrifice while aiming for a risk controlled business environment.

From what we can conclude from Table 2, both income statements show that the profit margin for the franchise will be 5% lower than that of the company owned store or 76,000 less in profit. This is a cost that the franchise will have to assess when analyzing the tradeoff between starting up their own company which could potentially fail or using an effective business model that includes the protection given by a franchising strategy and mitigates risk for the franchise.

- Income Statement Calculation

Sales: As disclosed by Sweetgreen's in 2008 still with only one store, they had 1.3 million in gross sales, so we took that number as reference for sales of a single store. Another reason we took that number is because it represents the sales revenue during the recession period. It is preferable not to take an overly optimistic value for sales.

Gross Margin: For calculating gross margin I took some market financial information for the restaurant industry as posted by the NYSE public information gathering information on the fast food category players such as McDonalds and Chipotle. From the calculation of their gross margin ratio I could see that the average between the two was about 40% in 2010. To this 40% of sales I added an estimated 2% extra. My assumption included the fact that the cost of goods for Sweetgreen would not be as high as those of Chipotle or Mcdonalds especially because they invest in less expensive raw materials (i.e. they don't invest in meat products). From this 42% Gross margin ratio I was able to calculate the COGS, the RM surcharge and the Gross margin ratio for the franchise.

Interest Expenses: So as not to distort the comparison between owned vs. franchised business alternatives, and as the interest nominal value would vary depending upon the size and length of the debt, so similar businesses will surely look different just because they have elected to take different leverage alternatives that will impact differentially the value of the interest line on both businesses, even by accessing both to the same borrowing cost. In other words, we should not let the business cash flows be influenced by capital structure decision and try to measure the operation as fully funded with own capital just for comparison purposes regardless of its final funding decision.

Table 3: Franchisee Returns

The Proposal To The Franchisee	0	1	2	3	4	n-3	n-2	14	15
One Time Expenses:									
Store set up	(350.00)	-	-	-	-	-	-	-	-
Franchising Fee	(20.00)	-	-	-	-	-	-	-	-
Recurrent Cash Flow:									
Franchisor Profit Before Tax	-	242.00	242.00	242.00	242.00	242.00	242.00	242.00	242.00
Royalties	-	(65.00)	(65.00)	(65.00)	(65.00)	(65.00)	(65.00)	(65.00)	(65.00)
Advertising Fee	-	(20.00)	(20.00)	(20.00)	(20.00)	(20.00)	(20.00)	(20.00)	(20.00)
COGS surcharge	-	(25.00)	(25.00)	(25.00)	(25.00)	(25.00)	(25.00)	(25.00)	(25.00)
Income Tax	-	(40.00)	(40.00)	(40.00)	(40.00)	(40.00)	(40.00)	(40.00)	37.00
Net Income after tax	-	93.00	93.00	93.00	93.00	93.00	93.00	93.00	93.00
After Tax Depreciation	-	17.00	17.00	17.00	17.00	17.00	17.00	17.00	17.00
Salvage Value	-	-	-	-	-	-	-	-	37.00
Net Cash Flow	**(370.00)**	**110.00**	**110.00**	**110.00**	**110.00**	**110.00**	**110.00**	**110.00**	**147.00**
IRR	29.20%								

- Franchisee Returns

As a way to take the first steps in developing the foundations of the franchising prospect and to better assess their opportunities and risks, I have prepared a 15 years projection in order to match the whole contract length and to evaluate the cash flows the franchisee would be producing.

Table 3 has been split basically in two different areas. The first one is the area were all the onetime expenses will take place, while in the second half of the chart I have posted all the recurrent incomes and expenses.

It would be important to notice that Table 1 is ranging the franchisee investment from $ 170.000 to $ 350.000 and in order to support a new store selling $1,300.000 million per year, I decided to forecast that the franchisee will invest up to the highest limit in order to be conservative with my return values. On top of this $350.000 cash out faced by the franchisee, he will have to afford the $ 20.000 of the entrance fee.

Starting from the franchisor business operating profit we subtracted the afore-mentioned recurrent expenses such as the marketing fee, the royalty and the surcharge over cost of goods sold. Then, income tax is calculated by applying the 30% effective tax rate, to finally determine the Net Income After Tax and from there to add back to the equation the after tax noncash items such as depreciation and amortization.

The last step before determining the business true yield, would be to make a decision on which methodology will be used to determine the ongoing business terminal value. Trying again to be conservative enough, it is exactly this concept of salvage value, what I have used, and for calculation purposes we estimated a salvage value equivalent to 10 % of the asset original cost.

Analyzing numbers of the final cash flow generated by the business; I can say it is showing a compelling 3,6 years as its payback period and a Net Present Value equal to zero when the flows are discounted at a 29.2 rate of discount.

- Franchisor returns

Having proved we do have a solid business proposition to be offered to possible future franchisees, this necessary condition is in some extent assuring we will have a compelling business operation to be offered to our net of prospective clients.

From the franchisor perspective, we would assume that as we have used market values to fix our incomes (royalties and fees), the business returns would also be compelling, so there would not be necessary to prove the case as the proliferation of new franchises every year is the best factual proof of profitability.

- Final business overlook

Summarizing, it is important to understand that the way the Sweetgreen organization as a whole will be functioning after the start up of the franchising strategy, could be explained through 4 different dimensions-

The first dimension is the franchisee side of the business which is showing a 29.3% IRR and a 3.6 payback period.

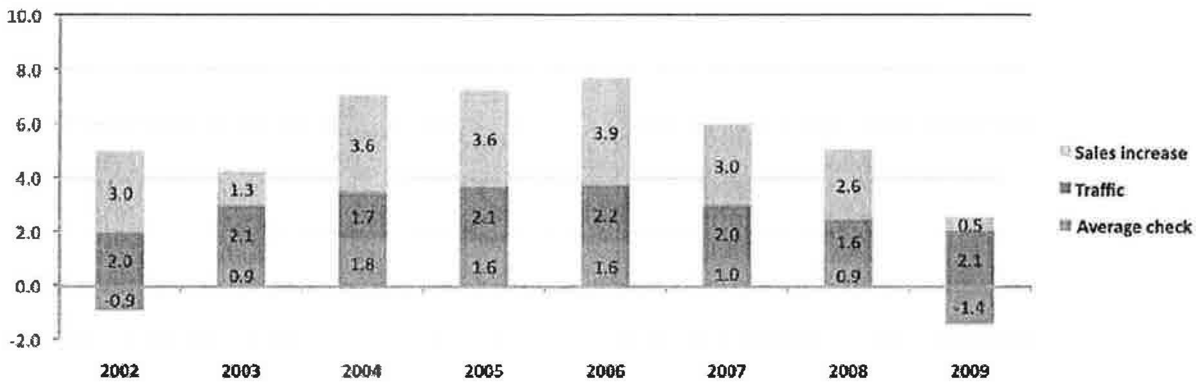
The second dimension is all the new activities Sweetgreen is participating on, acting as the franchisor and a service provider to its customers. In some extent it can be seen as a new profit center, that gets its incomes from the franchisee net and has its own expenses necessary to educate and support its new net of franchisees.

There is a third dimension which is the original Sweetgreen organization, currently the 8 branches, that as the previous one can be described as a 2nd profit center as it has its own income and expenses. This dimension has been analyzed just for the purpose of supporting our recommendations on dimension 1 and 2

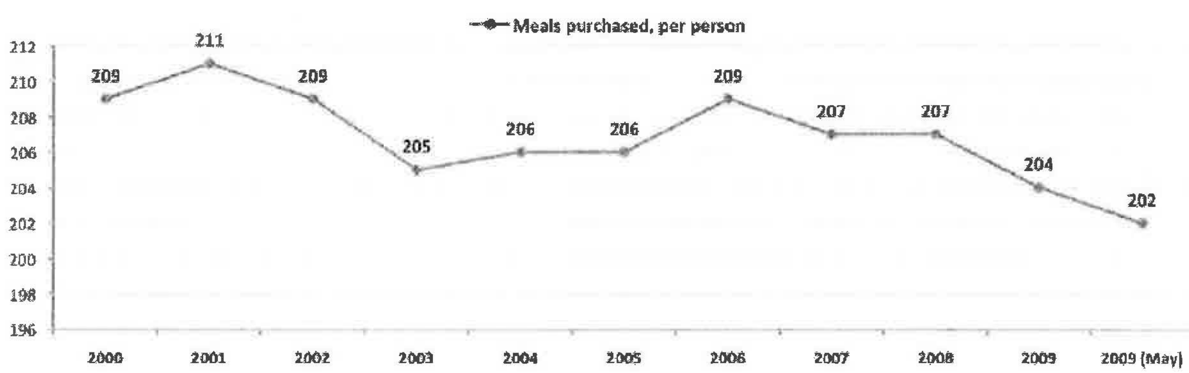
Finally the fourth dimension could be explained as "the corporation itself", meaning a cost center that centralizes costs from high direction as in fact these costs have to be fairly bear by the other dimension as long as their effort would be concentrated to oversee the business performance of the whole organization

After a careful revision of all the business aspects, I am certain to conclude that Sweetgreen has a promissory future by implementing our recommended franchising strategy

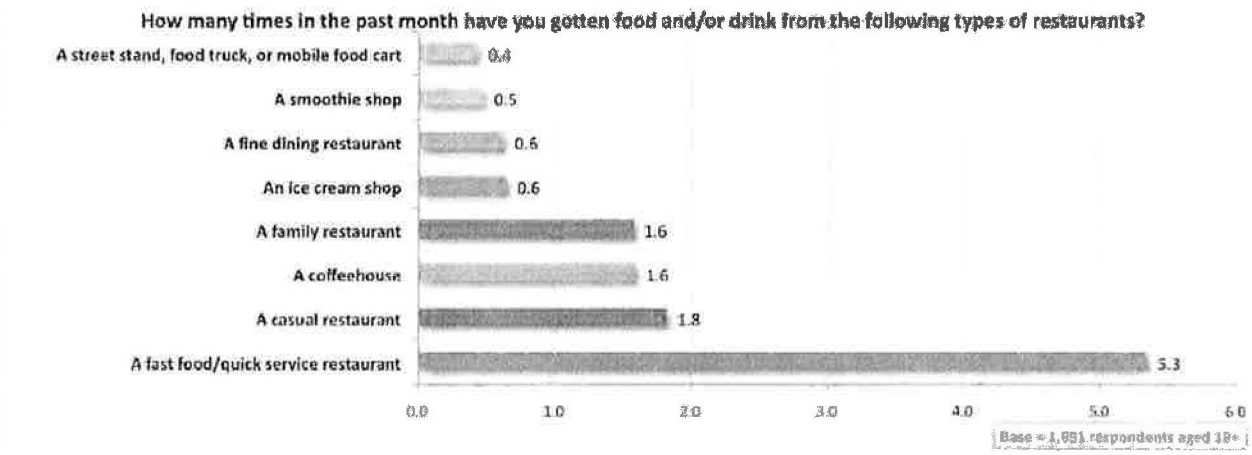
Appendix A: Average check, Guest Traffic and Sales Trends at Restaurants: 02-09



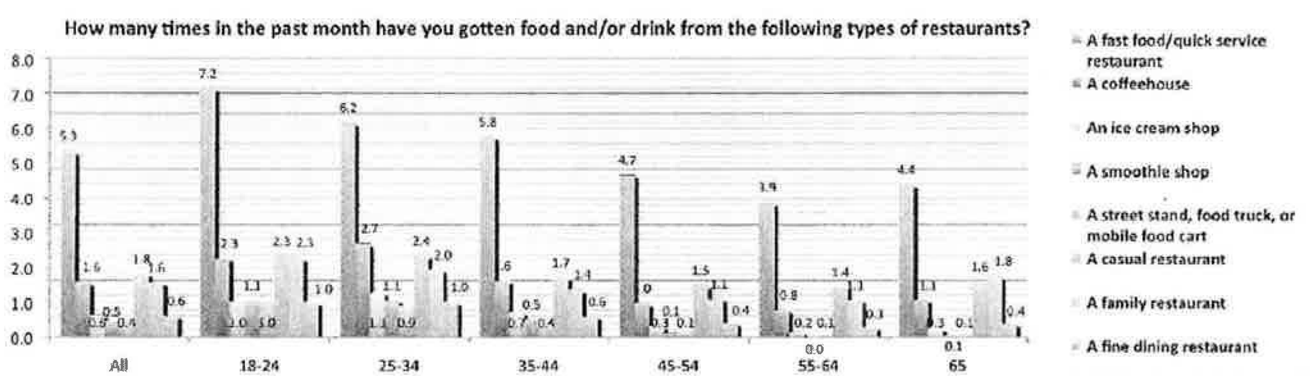
Appendix B: Annual Meals Purchased at Restaurants per person: 00-09



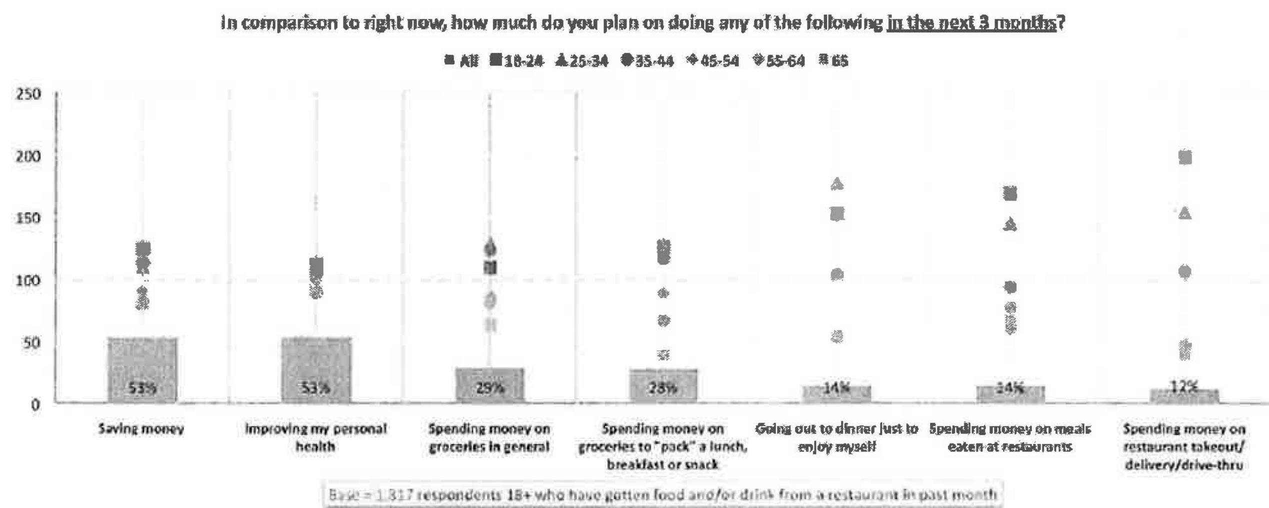
Appendix C: Mean Restaurant Usage by Type in 2010



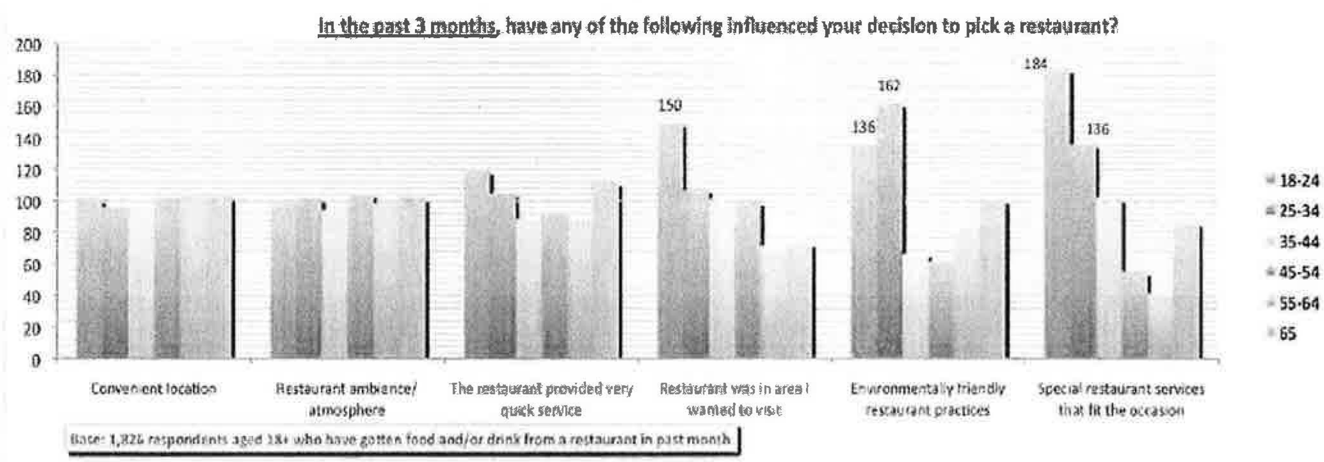
Appendix D: Mean Restaurant Usage by Type and Age Bracket in 2010



Appendix E: Future Consumer Restaurant Behavior by Age Bracket



Appendix F: Restaurant Selection Factors, by Age



Appendix G: Fast Food by Subsector: % Transaction Growth 2004-2009

% transaction growth	2008/09	2004-09 CAGR	2004/09 TOTAL
Chained Fast Food	-0.4	1.8	9.4
Independent Fast Food	-0.8	0.3	1.7
Asian Fast Food	-2.4	4.9	27.3
- Chained Asian Fast Food	-2.2	13.6	89.1
- Independent Asian Fast Food	-2.5	1.9	10
Bakery Products Fast Food	-2.8	2.9	15.3
- Chained Bakery Products Fast Food	-2.5	3.8	20.5
- Independent Bakery Products Fast Food	-3.5	0.8	4.2
Burger Fast Food	2	1.2	6.3
- Chained Burger Fast Food	2.1	1.6	8.2
- Independent Burger Fast Food	1.8	0.4	1.9
Chicken Fast Food	-3	1.2	6.1
- Chained Chicken Fast Food	-2.9	1.4	7
- Independent Chicken Fast Food	-3.4	0.5	2.3
Convenience Stores Fast Food	-3.2	1.4	7
- Chained Convenience Stores Fast Food	-3.1	2.3	12.1
- Independent Convenience Stores Fast Food	-3.5	-0.6	-3.2
Fish Fast Food	-6.4	-3.4	-16
- Chained Fish Fast Food	-6.3	-4.2	-19.4
- Independent Fish Fast Food	-6.5	-1.8	-8.5
Ice Cream Fast Food	-4.5	-1.6	-7.8
- Chained Ice Cream Fast Food	-4.4	-1.3	-6.3
- Independent Ice Cream Fast Food	-5.1	-3.4	-15.9
Latin American Fast Food	-1.9	0.9	4.3
- Chained Latin American Fast Food	-1.8	0.9	4.8
- Independent Latin American Fast Food	-2.3	0.6	3
Middle Eastern Fast Food	-3.5	0	-0.1
- Chained Middle Eastern Fast Food	-	-	-
- Independent Middle Eastern Fast Food	-3.5	0	-0.1
Pizza Fast Food	-2.8	1.1	5.6
- Chained Pizza Fast Food	-2.8	1.4	7
- Independent Pizza Fast Food	-2.8	0.8	4.2
Other Fast Food	-3.1	-0.1	-0.4
- Chained Other Fast Food	-2.9	0.5	2.5
- Independent Other Fast Food	-3.8	-1.7	-8.4
Fast Casual Dining	1	8	47.2
Fast Food	-0.5	1.4	7.1

Appendix H: Fast Food by Subsector: % Foodservice Value Growth 2004-2009

% value growth	2008/09	2004-09 CAGR	2004/09 TOTAL
Chained Fast Food	-0.3	3.7	20.2
Independent Fast Food	-1.2	1.1	5.8
Asian Fast Food	0.3	6.1	34.2
- Chained Asian Fast Food	3.5	15.7	107.2
- Independent Asian Fast Food	-1.4	2.4	12.9
Bakery Products Fast Food	-1.9	3.4	18
- Chained Bakery Products Fast Food	-1.2	4.3	23.7
- Independent Bakery Products Fast Food	-3.7	1.1	5.6
Burger Fast Food	0.9	2.9	15.6
- Chained Burger Fast Food	1.1	3.7	20.1
- Independent Burger Fast Food	0.5	1.2	6.1
Chicken Fast Food	-3.1	2.9	15.5
- Chained Chicken Fast Food	-3.0	3.3	17.6
- Independent Chicken Fast Food	-3.5	1.3	6.8
Convenience Stores Fast Food	-1.5	2.6	13.6
- Chained Convenience Stores Fast Food	-1.4	3.6	19.4
- Independent Convenience Stores Fast Food	-1.6	0.6	3.3
Fish Fast Food	-4.6	-1.9	-9.3
- Chained Fish Fast Food	-4.5	-2.3	-10.8
- Independent Fish Fast Food	-4.8	-1.2	-5.9
Ice Cream Fast Food	-4.8	0.1	0.5
- Chained Ice Cream Fast Food	-4.9	0.3	1.4
- Independent Ice Cream Fast Food	-4.0	-1.2	-5.8
Latin American Fast Food	0	4	21.7
- Chained Latin American Fast Food	0.5	4.8	26.5
- Independent Latin American Fast Food	-1.7	1.6	8.1
Middle Eastern Fast Food	-3.1	1	5
- Chained Middle Eastern Fast Food	-	-	-
- Independent Middle Eastern Fast Food	-3.1	1	5
Pizza Fast Food	-3.3	1.5	7.8
- Chained Pizza Fast Food	-3.2	2	10.2
- Independent Pizza Fast Food	-3.4	1	5.1
Other Fast Food	-2.1	0.2	1
- Chained Other Fast Food	-1.5	1.2	5.9
- Independent Other Fast Food	-3.5	-1.9	-9
Fast Casual Dining	2.4	9.4	57
Fast Food	-0.6	3	15.7

Appendix I: Forecast Sales in Fast Food by Subsector: % Transaction Growth 2009-2014

% transaction growth	2009-14 CAGR	2009/14 TOTAL
Chained Fast Food	1.5	7.6
Independent Fast Food	0.5	2.6
Asian Fast Food	0.3	1.3
- Chained Asian Fast Food	0.7	3.7
- Independent Asian Fast Food	0.0	0.2
Bakery Products Fast Food	0.6	2.9
- Chained Bakery Products Fast Food	0.7	3.6
- Independent Bakery Products Fast Food	0.3	1.3
Burger Fast Food	1.8	9.4
- Chained Burger Fast Food	2.2	11.7
- Independent Burger Fast Food	0.7	3.8
Chicken Fast Food	0.3	1.4
- Chained Chicken Fast Food	0.4	2
- Independent Chicken Fast Food	-0.3	-1.3
Convenience Stores Fast Food	0.6	3
- Chained Convenience Stores Fast Food	0.6	2.8
- Independent Convenience Stores Fast Food	0.7	3.5
Fish Fast Food	-2.1	-10.2
- Chained Fish Fast Food	-1.9	-9.4
- Independent Fish Fast Food	-2.5	-11.9
Ice Cream Fast Food	0	0
- Chained Ice Cream Fast Food	0.0	0.2
- Independent Ice Cream Fast Food	-0.2	-1.2
Latin American Fast Food	1.6	8.1
- Chained Latin American Fast Food	1.7	8.7
- Independent Latin American Fast Food	1.3	6.7
Middle Eastern Fast Food	0.1	0.4
- Chained Middle Eastern Fast Food	-	-
- Independent Middle Eastern Fast Food	0.1	0.4
Pizza Fast Food	0.9	4.6
- Chained Pizza Fast Food	1.4	7.2
- Independent Pizza Fast Food	0.4	1.9
Other Fast Food	0.7	3.4
- Chained Other Fast Food	1.1	5.5
- Independent Other Fast Food	-0.6	-3
Fast Casual Dining	3.1	16.5
Fast Food	1.2	6.2

Appendix J: Forecast Sales in Fast Food: % Foodservice Value Growth 2009-2014

% value growth	2009-14 CAGR	2009/14 TOTAL
Chained Fast Food	1.4	7.2
Independent Fast Food	0	-0.2
Asian Fast Food	1.1	5.8
- Chained Asian Fast Food	1.6	8.3
- Independent Asian Fast Food	0.9	4.5
Bakery Products Fast Food	0.9	4.6
- Chained Bakery Products Fast Food	1.4	7.3
- Independent Bakery Products Fast Food	-0.5	-2.4
Burger Fast Food	1.2	5.9
- Chained Burger Fast Food	1.7	8.7
- Independent Burger Fast Food	-0.1	-0.7
Chicken Fast Food	0.3	1.6
- Chained Chicken Fast Food	0.4	2.2
- Independent Chicken Fast Food	-0.3	-1.3
Convenience Stores Fast Food	0.8	4.2
- Chained Convenience Stores Fast Food	1.1	5.4
- Independent Convenience Stores Fast Food	0.4	1.8
Fish Fast Food	-2.7	-12.7
- Chained Fish Fast Food	-2.5	-11.8
- Independent Fish Fast Food	-3.1	-14.6
Ice Cream Fast Food	-0.3	-1.3
- Chained Ice Cream Fast Food	-0.2	-1.1
- Independent Ice Cream Fast Food	-0.5	-2.5
Latin American Fast Food	2.1	10.7
- Chained Latin American Fast Food	2.2	11.6
- Independent Latin American Fast Food	1.5	7.8
Middle Eastern Fast Food	0.2	1.1
- Chained Middle Eastern Fast Food	-	-
- Independent Middle Eastern Fast Food	0.2	1.1
Pizza Fast Food	0.7	3.6
- Chained Pizza Fast Food	0.9	4.4
- Independent Pizza Fast Food	0.6	2.8
Other Fast Food	0.7	3.4
- Chained Other Fast Food	1.2	6.2
- Independent Other Fast Food	-0.7	-3.3
Fast Casual Dining	2.8	14.8
Fast Food	1	5.1

Appendix K: Mcdonald's and Chipotle Income Statement

Period	McDonalds	Chipotles	Average	McDonalds	Chipotles	Average	McDonalds	Chipotles	Average
	12/31/2010			12/31/2009			12/31/2008		
Sales Revenue	24,074,600	1,835,922	25,910,522	22744700	1518417	24,263,117	23522400	1331968	24,854,368
ost of Goods Sold	14,437,300	1,143,613	15,580,913	13952900	935317	14,918,217	14883200	1045041	15,928,241
Gross Profit	9,637,300	692,309	10,329,609	8,791,800	553,100	9,344,900	8,639,200	286,927	8,926,127
	40.03%	37.71%	39.87%	38.65%	36.43%	38.51%	36.73%	21.54%	35.91%
Operating Costs									
Research & development	-	-	-	-	-	-	-	-	-
SG&A (Selling, General & Admin.)	2,135,100	321,494	2,456,594	2011300	273730	2,285,630	2355300	89155	2,444,655
No Recurent	.	.	.	.	.	.	.	.	.
Others	.	.	.	.	.	.	.	.	.
Total Operating Expenses									
Operating Profit	7,502,200	370,815	7,873,015	6,779,900	279,370	7,059,270	6,283,700	197,772	6,481,472
	31.2%	20.2%	30.4%	29.8%	18.4%	29.1%	26.7%	14.8%	26.1%
Interest Expenses	450,900	269	451,169	473200	405	473,605	522600	302	522,902
Profit Before Tax	7,051,300	370,546	7,421,846	6,306,700	276,965	6,583,635	5,761,100	197,470	5,958,570
Income Tax	2,054,000	110,080	2,164,080	1936800	77330	2,013,380	1844300	49304	1,893,304
Net Income After Tax	4,997,300	260,466	5,257,766	4,370,100	201,585	4,571,385	3,916,300	148,466	4,064,766
	20.8%	14.2%	20.3%	19.2%	13.3%	18.8%	16.6%	11.1%	16.4%
After Tax Operating Profit	5,312,930	260,654	5,573,584	4,701,340	201,869	4,903,209	4,282,120	148,677	4,430,797
	22.1%	14.2%	21.5%	20.7%	13.3%	20.2%	18.2%	11.2%	17.8%

Source: NYSE

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