ENERGY EFFICIENCY DECISION-MAKING IN CHAINS AND FRANCHISES

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ABSTRACT

A significant proportion of the commercial floorspace in retail grocery stores, restaurants, and dry goods stores is managed by chains and franchises. The task of marketing energy services to these organizations is very different than the task of marketing to independently owned businesses. The Bonneville Power Administration contracted with the firms of Ecotope and Seton, Johnson, and Odell to conduct a detailed study of how the largest chains and franchises in the Pacific Northwest make decisions about energy conservation investments in new and existing commercial buildings. The study provides a detailed picture of decision-making processes, current building stock efficiencies, equipment, and fuels, and program needs for each of the selected chains. This paper summarizes the methodology used in the study, provides a decision-making profile of each building type studied, and draws some conclusions for energy conservation programs.

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INTRODUCTION

For the purpose of this study a franchise is characterized as any business with a contractual arrangement allowing the franchisee to conduct a given form of business under an established name and according to a given pattern of business. A chain is defined as multiple retail units under common ownership which utilize a centralized purchasing and decision-making unit, either nationally or regionally.

Previous studies indicate that a significant portion of the commercial floorspace in retail stores, grocery stores, restaurants, and lodging facilities is managed by chains and franchises. (Merchant, 1984). The task of marketing energy services to these firms is different than marketing to independently-owned businesses, because they have different levels of interest in building efficiency and are organized differently from independent businesses. (Dornbusch, 1984). The Bonneville Power Administration (Bonneville) has made its commercial efficiency programs available to chains and franchises, but hopes to be more effective in helping chains and franchises become energy efficient with a better understanding of the sector.

With that interest in mind, in May of 1986, Bonneville contracted with two Northwest consulting firms to conduct a detailed study of energy efficiency decision-making among chains and franchises in the Pacific Northwest. The goals of the study included the following:

- Identify the largest chains and franchises in the Pacific Northwest (based on their overall energy use).

- Determine how those chains and franchises made decisions about energy conservation in new and existing commercial buildings around the region.

- Describe the current level of efficiency and energy efficiency programs at each of the firms contacted. This more detailed information is not presented in this paper, but is available in the final report from this project (Baylon, et. al., 1987).

- Describe the extent to which decision-making within chains and franchises is centralized and can be accessed through a single office or point of control.

- o Describe the range of attitudes toward conservation among decision-makers within chains and franchises in an effort to gain insight useful in establishing a marketing approach to these decision-makers.

By studying the largest chains and franchises, Bonneville hoped to gain an understanding of the firms which account for the largest amount of load. Information about the relative share of the market represented by these firms would be used to determine whether the largest firms can be taken to represent a large proportion of the chains and franchises in the sector.

This paper summarizes the methodology used in this study, develops a typology of decision-making patterns, analyzes the decision-making profiles in the five sectors studied and draws some preliminary conclusions for present and future energy efficiency programs.

METHODOLOGY

Based on previous analyses (Merchant, 1984), five building types were chosen for detailed analysis: Large Retail (more than 20,000 square feet per outlet), Small Retail (less than 20,000 square feet per outlet), Grocery Stores, Restaurants, and Lodging.

The project team pursued the following steps:

1. Develop a list of major chains and franchises.

2. Conduct brief telephone interviews with selected firms to screen out those which are not really chains and franchises, develop basic information for estimating the relative energy use of different firms, and establish a point of contact for a more detailed interview.

3. Conduct detailed interviews with representatives of 25 firms, five from each building type listed above.

4. Review energy audits from each of the firms interviewed.

Each of these steps is discussed briefly below.

Develop List of Major Chains and Franchises

A list of major chains and franchises in the large retail, small retail, and restaurant sectors was developed through a survey of business listings in the telephone books of 20 larger urban centers in Oregon, Idaho, and Washington. Major grocery chains and franchises were identified through interviews with the region's dominant grocery wholesalers. Chains and franchises in the lodging sector were identified through the use of AAA

Automobile Guide Directories. The result of this research was an extensive, but not exhaustive list of firms, including the region's largest chains and franchises.

Conduct Brief Interviews

Preliminary interviews were conducted with approximately 12 firms from each building type to identify the number of buildings operated within the Northwest by each firm and to identify a point of contact for later interviews. Based on the interviews, and on energy audits for most of the firms which were available from Bonneville or from the contractors, rough estimates of the energy use of each firm were developed. By comparing this data to Bonneville estimates of commercial load by building type for the sector as a whole, an estimate was made of the proportion of the regional load from each building type represented by the largest firms. The 23 firms eventually studied in detail in this report represent a significant share of overall electric energy use among large retail stores (19 percent of all large retail electric load) grocery stores (47 percent of all grocery load) and lodging (34 percent of all lodging load). The proportion of load represented by the firms studied was much smaller for restaurants (6 percent) and for small retail (2 percent). This is because there are many more firms with a significant share of load in those sectors.

Conduct Detailed Interviews

From the list developed in the previous step, twenty-five firms were selected, five for each building type, for detailed study. In this way, the project team hoped to provide examples of the range of decision-making and organizational structures within the sector. Companies with large numbers of facilities but relatively little electricity demand were passed over in favor of companies with a large amount of electric energy required for their operation.

The research team attempted to interview the key energy manager in each of the selected firms, using a structured format. The interview was designed to isolate four factors:

1. How the organization was structured.

2. Organizational energy using and decision-making patterns.

3. The attitudes and current policies regarding electric energy use.

4. The attitudes and current policies regarding conservation incentives, rebates, and participation in utility conservation programs.

The interviews were conducted by technicians who are familiar with energy conservation and energy issues. Out of twenty-five firms targeted for interviews, twenty-three full interviews were obtained, including the substitutions. In the small retail sector, it proved extremely difficult to secure interviews. Questions involving energy use were basically peripheral to these businesses. In the end, only three interviews were secured in this sector.

The interviews required approximately forty-five minutes each with decision-makers. This created a difficulty, since most of these managers were extremely busy, and were unwilling to give the research team sufficient time to go into detail. As a result, information associated with building energy use, current energy conservation plans, and current energy conservation attitudes was often not developed in detail.

Review Energy Audits

As a final step, upon compiling the interviews, a more detailed review was made of energy audits of the facilities owned by each of the twenty-three firms. This information, coupled with the interview information, helped to determine:

1. The fuel use within the buildings.

2. Conservation opportunities available within each operation.

3. Potential savings associated with those operations.

RESULTS

It was clear from the interviews that decision-making in chains vs. franchises was different. The project team developed a typology that classifies the firms interviewed based on differences in the way they make decisions about energy management. The franchise typology is more complex than the chain operations typology. The major types of decision-making among franchises and chains are described below.

Decision-making Patterns Within Franchise Operations

There are three general types of franchise operations. Each reflects the level of decision-making control that the parent company has over its franchise facilities.

Centrally-Owned Franchise Operations. In these organizations, either the central corporation actually owns the facility, and leases it to the franchisee, or the franchisee agrees to allow decisions regarding facilities design and construction to be handled by the central corporation. The corporation provides all maintenance and operation services, as well as design and remodel services.

Some corporations utilize a variation on this model. Under this variation, the central corporation designs and specifies the building and stipulates its operation under the franchise agreement, but does not own or operate the building.

Divided Control. In the divided control franchise model, the central corporation designs the building and provides all specification at the outset, but takes virtually no responsibility for the operation or management of the building.

There are two variations of this model:

1. The franchisee actually owns a chain of franchises at multiple sites. This give the franchisee considerable leverage and staff to integrate and evaluate conservation projects and other facility modifications, and to convince the corporate headquarters of the desirability of such changes.

2. The franchisee is an individual operating one or two buildings, and has virtually no expertise or resources from which to draw insights useful for energy conservation or other facility modifications.

Trademark/Product Franchises. The final style is the "trademark franchise". This model is extremely common, especially in the lodging and small retail sectors. In this type of franchise agreement, the franchisee purchases a name and market identification. The franchisee then builds and operates the facility as an independent business. There is no centralization of decision-making beyond the franchisee. However, most parent companies can and do provide information among franchises to the mutual benefit of all parties and overall profitability.

Decision-making Patterns within Chain Operations

The two dominant decision-making patterns in chain operations are described below.

Centralized Control. In this model, the corporation is a multi-level decision-making body in which authority flows from a central corporate office. Individual energy efficiency investments are often proposed by managers of facilities or regional energy managers, but proposals must be approved by a hierarchy including the individual stores the area supervisors, the regional offices, and corporate headquarters.

Profit Centers. In this organizational style, the central decision-makers in the corporation are organized in a two-tiered model: corporate headquarters and the individual retail outlets. Decisions as to the day-to-day building operation, building maintenance, and about financial investments in building operation are given to the manager of the individual store. Ultimately, decisions regarding retrofit conservation alternatives must be reflected in the short term profitability of the store, or else the manager's incentives are limited.

For most profit center organizations, the corporate headquarters designs and remodels the building and provides support for long-term facility renovations and construction, but does not develop a mature or well integrated energy conservation plan.

SECTOR SUMMARIES

The following paragraphs summarize the predominant decision-making patterns and the level of interest in utility efficiency programs within each of the sectors studied.

Large Retail

The large retail sector includes all retail stores over 20,000 square feet. Chain operations are predominant in this sector. Information was derived from interviews with five chain operations: Ernst Hardware, K-Mart Corporation, Payless Drugs, J.C. Penney's, and Sears, with additional information provided by Fred Meyers as a by-product of interviews for the grocery sector.

Decision-making Patterns. Conservation plans and programs within this sector are characterized by centralized decision-making. Virtually every chain studied relies on corporate headquarters for approvals and final decisions. New contruction is centrally controlled. For building remodels, only Penneys assigns the final approval and budget authority to the regional offices. As a result, corporate offices have only nominal control of the total budget.

A certain amount of autonomy exists for operation and maintenance activities and energy efficiency retrofits. In older Payless and Sears stores, conservation retrofits can be initated by the store managers, with budget approval coming from the corporate or regional level. The remaining firms have either a regional or corporate policy which guides the technical nature, timing, and budget level for retrofits throughout their chains.

Implications for Programs. All of the large retail companies that were interviewed have active conservation programs and knowledgeable staff to implement those programs. Given this, large retail companies are not interested in technical assistance, as they already have established technical criteria applicable to their company and evaluated individual conservation options for their own buildings. These firms are more likely to be interested in incentive and rebate programs, both in new and retrofit construction. Programs which reduce the front-end capital cost of efficiency measures are likely to spur more action, by assuring that more programs meet corporate investment criteria. In some cases, utility cost-sharing programs for energy efficiency investments may help attract capital from a firm's national efficiency program to a specific region. However, the specific programs and conservation measures would need to meet corporate goals and design criteria to be considered at all by the appropriate decision-makers.

Small Retail

Small retail is defined as retail establishments with less than 20,000 square feet of conditional space. The small retail sector consists of a diverse group, ranging from highly centralized chains to functionally independent trademark franchises. Extensive interviews were conducted with three chains: House of Fabrics, Fabricland, and Radio Shack. Partial contacts which did not result in interviews were with Shuck's Auto Supply, Les Schwab Tires, Kinneys Shoes, and Jay Jacobs Apparel.

Decision-making Patterns. The conservation decision-making patterns in the small retail chains that we contacted can be characterized by highly centralized disinterest. Corporations made virtually all major decisions as to conservation improvements from the corporate headquarters. Most said that their interest was either marginal, or that they once had a conservation program for a limited period of time and might have one again sometime. Among the franchises in this sector, there are numerous trademark franchises (e.g.: Tru-value Hardware, Hallmark Cards). The franchising aspect of these businesses has little to no bearing on the building operation. For marketing purposes, these are independent businesses.

Although there are some efforts to perform cost-effective efficiency improvements during renovation, the small retail businesses studied under this project did not seem to have a large amount of new construction under corporate control. This is partially because many small retail chains rent space from mall owners and other property owners.

Implications for Programs. The small retail sector is the least aware of energy issues and conservation. This is largely because businesses in this sector have limited impact on both the design of the buildings in which they are housed, and on the HVAC and other equipment selection relevant to their business operation. Corporate new construction and facility departments concentrate on the need for specific marketing images, lighting, and space planning requirements integral to the operation of their firms. Furthermore, many of these chains are located in large scale shopping malls in which the HVAC system and building envelope are developed prior to the lease. Given both the size and energy use of these firms, as well as their general attitude about conservation, utility marketing of energy efficiency would generally be better applied to other sectors first. Efforts to market to this sector should concentrate on very simple measures. Programs should be designed to require very little time or money investment from the firms. Even more than for other sectors measure recommendations and marketing for small retail businesses should be designed to compliment the greater interest of the firms in appearance, comfort, and visibility.

Restaurants

The restaurant sector includes all commercial operations that sell and/or serve prepared food. In examining the centralized decision-making in these operations, we interviewed five restaurant firms: Burger King, Denny's, McDonald's, Skipper's, and Wendy's International.

From the information collected in the interviews, it would appear that the majority of the floorspace in fast food restaurants is managed by franchised operations not owned by the central corporation. Burger King is 90% franchised operations, McDonald's is 75% and Skipper's is 25%. Wendy's interviews were conducted with a franchise chain operation which operates virtually all of the Wendy's restaurants in Washington and Oregon.

Decision-making Patterns. New construction energy efficiency decisions for chains and franchises were made at the national level with input from the local manager. McDonald's designs facilities at a regional level although some equipment specifications come from the corporate headquarters. For the retrofitting and remodeling of restaurants, franchisees are in partnership with the corporation, and have the ability to make and approve decisions with respect to their facilities in conjunction with regional or national offices. Most firms have efficiency programs which focus on lighting and building efficiency.

Implications for Programs. The restaurant sector is very energy intensive and quite sensitive to energy conservation issues. However, generalizations about receptivity to marketing of conservation programs are particularly difficult to make in this sector. For example, one national fast-food chain, McDonald's, has well-established regionally managed conservation programs throughout the nation. They have an excellent opinion of the usefulness of utility audits and conservation programs. The energy managers for this firm are well-informed and have done extensive research on available conservation programs and the advisability of using them in their restaurants. As a result, conservation marketing would need to be creatively structured to ensure integration into both the planning process and their construction and mechanical specifications of this franchise.

In contrast, Burger King seemed relatively unconcerned about energy costs and conditions, especially in the Pacific Northwest. Corporate headquarters has a conservation program, but it is strictly focused on new construction. Given the decentralized nature of this chain (90% of the restaurants are franchised), this attitude is not surprising. However, it makes marketing a much more difficult task as almost each restaurant in this chain has to be approached on an individual basis. Burger King tends to closely follow McDonald in many of their management initiatives. Thus, the best way to influence Burger King may be to influence McDonalds'.

Given the diversity this sector offers, marketing efforts towards restaurants should follow these guidelines:

1. Marketing should focus first on those firms which express an interest in efficiency programs. However, interest in energy efficiency among restaurants is increasing, even among firms showing no previous activity. Therefore, it may be worthwhile to make initial contact with a number of firms.

2. The success of conservation programs aimed at existing restaurants depends in large part on marketing to the organizational level which makes efficiency investment decisions within each specific firm. This level will differ between firms.

3. Most restaurant chains make decisions about new construction, including equipment specifications, at the corporate headquarters level. Individual restaurant managers usually do not make decisions about new construction issues. Therefore, new commercial energy management marketing efforts should be directed at the corporate level first.

Grocery Stores

The grocery store sector is defined as retail stores which primarily sell packaged foodstuffs and related products, including both grocery stores and convenience stores. Most grocery stores are owned by chains. The material in this section is based on interviews with key decision-makers in five firms: Safeway, Albertson's, Fred Meyer's, Southland Corporation (7-11), and SGA Corporation (Tradewell and Prairie Market).

Decision-making Patterns. Conservation plans and decisions are largely focused on new construction and major remodels. The use of retrofit strategies is somewhat limited (except Safeway). Major retrofits are usually part of a general remodel strategy. Among convenience stores, businesses is expanding quickly and new construction is the critical area in which conservation can be effected. All of these operations are characterized by relatively centralized decision-making.

Safeway, the largest chain, has facility decision-makers concentrated at the regional level. The remaining supermarket chains have corporate offices and principal decision-makers within the region, either in Seattle or Portland. The convenience stores are largely regional, although 7-11 is a nationally franchised operation with decision-making at divisional offices as well as corporate headquarters.

Implications for Programs. Retail food stores have a high per unit energy use which sensitizes them to conservation issues. In this sector, receptiveness to conservation programs depends on the existence and strength of in-house conservation programs and on the level of knowledge of energy managers within these retail food chains. The mixture of technical assistance vs. incentives, and the degree of interest in new buildings vs. remodels vs. retrofits varies from corporation to corporation. Most of the larger grocery store chains have a conservation program in place or have participated in utility-based conservation efforts, but many of the programs focus exclusively on new buildings and remodeling.

Two of the five firms expressed concern over the complexities of working with utilities and the difficulty in making utility program work with their own internal programs. The sector believes strongly in their need to have control over design and key decisions involved in construction of new buildings and performing major remodels in their existing buildings.

Lodging

The lodging sector includes establishments which provide lodging and associated services on a temporary basis. The information for this sector was derived from interviews with four hotel and motel operators, namely, Red Lion/Thunderbird, Motel 6, TraveLodge, and Holiday Inn, in addition to a partial interview with Nendel's Motor Inn. The first two of these are centrally controlled chains. Travelodge is a joint franchise operation where some of the buildings are owned by the central corporation and some are trademark franchises. Holiday Inn and Nendel's are trademark franchises. Centrally controlled chain operations are more the exception than the rule. We chose to study two of them because of the size of the two firms and because of their likelihood of centralized decision-making.

Decision-making Patterns. Conservation plans in this sector are complicated because maintenance and operation must be controlled by the management on site. Thus, many efficiency measures, classed loosely as "operation and maintenance conservation", are concentrated in local management. Also, for firms with relatively loose franchise agreements, such as Holiday Inn, equipment retrofit and even remodels are controlled at the level of the individual store.

In contrast, the development of new construction and remodel construction is much more centralized in either regional or national headquarters. In the case of Holiday Inn, for example, a technical and engineering and architecture staff exists which provides the basic hotel plans and specifications to franchisees.

For retrofit programs, in franchise operations, there is substantial discretion on the part of individual hotel managers. Franchise-wide conservation programs are often cut at the local level. Three of the corporations interviewed give substantial discretion to their managers or franchisees. Motel 6, however, maintains very centralized control over the entire operation, and Red Lion also provides facility management from a corporate level. Only Red Lion has an extensive conservation retrofit and operations and maintenance program for their facilities.

Implications for Programs. The lodging firms are primarily concerned about the level of comfort within their facilities and about their image. However, because a large amount of electric resistance heat is used in this sector, especially in small to medium motel facilities, interest in conservation programs for cost control is high. Most corporate headquarters do not have extensive conservation programs. This is because this sector is dominated by trademark franchises in which local managers and operators have virtually total control over all facility decisions. Most of these centrally controlled firms have staff/facilities engineers with some experience in conservation, but there is a noticeable lack of in-house conservation programs.

An approach that combines both technical assistance and incentives would be ideal for this sector. During the interview process, it appeared that incentives toward the actual installation of energy conservation measures would be critical to participation in large scale conservation programs by most of the lodging chains. However, most were in no position to either evaluate conservation programs for their chain or to propose particular conservation measures that might be applicable to their operations without technical help.

CONCLUSIONS FOR CONSERVATION PROGRAMS

From the sector by sector review described above, it is clear that any single approach to marketing efficiency to chains and franchises will have limited appeal. The specific types of assistance required differs from sector to sector and from firm to firm. The organizational level at which decisions are made varies. Even among businesses which sell a particular product, the interest in efficiency depends greatly on the size of the firm, the management style, and the market position.

The businesses studied here can be placed in three categories; energy competent firms, energy interested firms, and disinterested firms. The energy competent category includes the more advanced large retail chains, grocery chains, and restaurants. Among these firms, there is some centralized management of energy efficiency, considerable technical expertise, and an interest in doing more about energy costs. Since these firms possess some technical capability, programs that begin with standard energy audits and lead to recommended measures may not meet the needs of most of these firms. These businesses would best benefit from programs of specialized technical services which are designed around an understanding of how the company's internal energy management structure works. For example, a demonstation of a particular piece of equipment within one of the stores within a certain chain, cooperatively managed by a utility and the chain's internal energy management staff, stands a good chance of being replicated.

In many cases, these firms are moving to install the most attractive energy efficiency measures, but are prioritizing these decisions on a national basis Most of these firms are expending much more resources on new buildings than on existing buildings. Financial incentives may make investments in a local service area more attractive, thereby focusing corporate attention and funding on that area. For chains and franchises which are already active locally, properly structured incentives can bring measures with longer paybacks into the investment thresholds of these firms.

The energy interested firms may not possess as much in-house capability and experience, but are equally likely to have their own priorities and conditions for energy efficiency. This group, consisting of many smaller or less centralized franchises and chains running on the profit center system, is well represented in the restaurant, grocery, lodging, and large retail sectors. These firms, like many commercial businesses, require more technical and administrative assistance on the way to making energy efficiency investment decisions. Incentives for this group will encourage more investment in energy efficiency, more rapid investment, and investment in measures with longer paybacks. It is notable that many firms which are "energy competent" for new construction or remodeling may fall into this category for retrofit work.

The third group has only a marginal interest in reducing their energy costs. Most small retail firms seem to fit into this category, whether they are centralized chains or stand-alone stores. Expectations for energy savings from these businesses should be minimized. Efforts at influencing new construction in this group should focus on working with their landlords (developers, shopping malls, etc.) and on building codes. Retrofit programs should be designed to provide simple measures with reliable savings at little to no cost for the building owner and no risk of damaging the aesthetic environment of the store. Anything more demanding or risky will discourage a large number of store owners from participating.

If a utility wishes to maximize energy savings among chains and franchises, it is important to offer both a diversity of services and to carefully target services to specific firms based on an understanding of each firm's operation and needs. The field representative for the program needs to have considerable flexibility to choose program elements which work for a specific firm, and to implement them at a pace and in a manner which is consistent with the goals of each firm.

Since many chains and franchises already know something about efficiency, any program for them must have competent technical personnel. Interviews with energy managers indicated that previous efforts have in some cases damaged the credibility of utilities by offering services which did not meet the clients needs or were not technically up to the level of knowledge of internal staff.

Because these firms are regularly targeted by manufacturers, suppliers, and even energy companies of various types as ideal candidates for a marketing effort, program marketing must be professional and credible. The marketing efforts must also promote the compatability of efficiency with the primary sales goals of these firms and emphasize tangible energy and nonenergy benefits of technologies. The use of incentives is probably necessary for a utility to be considered a credible player in terms of influencing corporate energy conservation policy. However, for the most advanced firms, a great deal of leverage may be available if the incentives are used for demonstration of technologies.

The principal business of these corporations is to provide goods and services to a range of customers. These companies view the direct need for conservation as considerably less important than the need to maintain an appropriate marketing stance and corporate image. While these corporations are fairly resistant to marketing efforts from the outside, they are also responsive to avenues which increase the cost competitiveness of their products or profitability. They will observe their competition closely and follow the lead of successful programs. If a program can demonstrate success with one of the larger chains or franchises in each sector, the others are likely to follow.

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