

Grease National Product

Cooking oil supply company has slick business plan

By Julie Forster

jforster@pioneerpress.com

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People typically don't give much thought to old restaurant grease — the stuff with food flecks swirling around in it. Yet Jeffrey Kiesel thinks hard every day about how he can get his hands on more. Each gallon of oil sucked from a fast-food fryer and into one of his trucks represents more money in his pocket.

Since it was founded in 1999 as a spinoff, Restaurant Technologies Inc., the company Kiesel heads as chief executive, has gone like greased lightning from zero customers to 16,000 who rely on it to supply cooking oil and then haul the used grease away.

The Eagan-based company serves more than half of McDonald's 13,000 corporate and franchisee restaurants across the country. Revenue has grown fourfold in five years to more than \$200 million.

While much of the economy struggles, the company — owned by private equity firms and individual investors — is now talking international expansion to countries big on deep-frying.

Infusing expansion plans of late is a run up in demand for the used grease, which RTI sells. The main end market is livestock feed. But the grease market also is getting a boost from rising crude oil prices, increasing demand for alternatives like biodiesel, which can be made from such so-called yellow grease. This grease is commanding four times the price it was two years ago.

Yellow grease jumped to an average price of 38 cents per pound in June — an all-time high. It was 10 cents per pound just two years ago, said Bill Dieterichs, an analyst who follows the market for grease and tallow for a publication called the Jacobsen.

The run-up in the yellow grease market also has been important as gains there offset RTI's rising costs of fuel, labor and borrowing.

The company also makes money supplying fresh oil to fast-food restaurants and other chains that do a lot of deep-frying and on service fees for its closed loop system.

The patented system automates the process of emptying oil from a restaurant's deep fryers into a delivery truck, while fresh oil from a second tank on the truck is pumped into tanks in the restaurant. The idea is that restaurants can cut costs by using the data measurement system to monitor oil usage and make changes when necessary.

The company has built a presence across the country. Today, executives can proudly say they suck grease from 7,000 McDonald's restaurants. Other clients include Kentucky Fried Chicken, Applebee's, Hoolihan's, McCormick & Schmick's and Fuddrucker's.

Kay Butler and her husband use the service for seven of their eight Twin Cities McDonald's restaurants. Butler logs onto a Web site to remotely monitor each restaurant's oil usage, allowing her to more precisely hone in on costs and compare one restaurant's use with another. If an employee prematurely changes oil, for instance, she knows immediately and can address it. "Now we know exactly what they are using," Butler said.

Kiesel sees it as: what you can measure, you can manage. "We are providing a critical commodity, which is getting more and more costly," he said. "We give people the ability to monitor that on an ongoing basis. Yes, we supply oil, and yes, we make money every time we deliver oil, but we are more valuable to our customers when we show them how to use less oil."

But the system is not universal. Many restaurants still get their grease the old-fashioned way: It's delivered weekly in big containers with handles. Employees pour the oil into the fryer vats. When it is spent, it goes to the back of the restaurant, usually dumped into barrels that sit until a rendering firm picks them up.

At restaurants owned by Edina-based Parasole Holdings, used, and still hot, frying oil was drained into stockpots that sat in the middle of the kitchen as staff navigated around them. When the oil cooled, they'd lug the

containers outside. It was a nasty job, said Michael Larson, Parasole's divisional vice president. The company now uses RTI's system in six of its restaurants including Figlio and Chino Latino in Minneapolis.

"It was nasty, smelly and it was as bad as you can imagine old oil to be, full of bugs and garbage and flies," Larson said recently. "On a hot day like today, forget about it. It was horrible."

Now employees flip a switch to start the automated process. When needed, the system filters the oil in the frying vats to rid it of food particles that affect the taste of the food. The old way using a strainer and cone filter was a pain, and probably done less often.

The capital-intensive business is operated via a complex distribution system with 36 oil depots in 45 cities. RTI owns the oil tanks and other equipment installed inside or outside the restaurants. It owns the data-measurement system that transmits oil-usage data onto the Internet. And it owns the delivery trucks and depots, where oil suppliers like Cargill drop off their oil, including high demand, healthier trans-fat-free oils.

Next year, Kiesel expects to add three new depots in three new cities and two more in each of the years following that.

There's plenty of room for growth: The company has less than a 10 percent penetration of all the restaurants that fry in the United States. Ten new cities were added in 2007.

"Right now we needed to take a breather to make sure what we have is running well," said Jon Getzinger, the company's executive vice president of sales.

Next year is a different story. The push into new markets will get under way again.

"Next year is the first year we'll actually look seriously at putting a stake in the ground internationally," Getzinger said. Puerto Rico and Canada hold good potential because of the large amounts of fried foods consumed there.

Julie Forster can be reached at 651-228-5189.