1. I would first want to get a detailed overview of the donut shop industry as a whole. I would then like to look at HD’s financials and compare them to the market average. I would want to explore the business model of HD and examine their business processes in order to see if there are any similarities between HD and BB as far as that is concerned. I would also want to examine how profitable HD is, in order to see if it is a worthwhile investment. I would also like to see where all of the HD stores are located so that I could see if there is possible areas of expansion that are still available. Further, I would want to become more familiar with HD’s franchising by area or region, and get a better understanding as to why that is the current process. Lastly, I would look for easy and cost efficient ways to improve HD, so that I can make a profit on the investment.

2. A potential synergy could be combining BB and HD into the same store location so that they may be able to save on rent, and reach locations that the other is not already in (much like KFC/Pizza Hut combo locations). This synergy would also lower restaurant operating costs, increase sales, and reduce administrative costs because one manager could manage each location, instead of having one per BB and one per HD. Another possible synergy could be joint marketing. Each store could advertise or give special deals for the other store, and visa versa. This would increase the number of new customers, and would ultimately increase sales. Another synergy would entail BB and HD making a joint deal with their food supplier so that they would get better prices, which would lower operating costs. The supplier would be interested because there would be a guaranteed cash flow that is larger than they are already receiving.
3. Currently, HD’s sales are $700M and the total doughnut sales in the US, based off of $10/year/head with a current population of 300M is $3B. HD’s current market share is 23.33% ($700M/$3B). In 5 years, the expected sale per person per year for doughnuts moves to $20. This means the total doughnut sales will be 6B. In order for HD to double their market share to 46.66%, their sales will need to be approximately $2.8B.

4. I would assess the impact of this move on overall profitability by looking at profit as a percentage of sales for each individual chain, and compare that to the profit as a percentage of sales for the combined stores. If there was an increase, then I would be satisfied that this would be a good choice for BB. The logic behind this idea is that sales will increase, but that operating costs such as administrative costs, property costs, and equipment costs will decrease because some can be shared between the two operations.

5. The profit for doughnuts would be $60,000 per store (50,000 units X $2 X 60%). The profit for burgers per store would be $405,000 (300,000 units X $3 X 50% X 90%). The total profit per store would be $465,000 ($60,000 + $405,000).

6. I would summarize by saying that HD looks like a very sold acquisition. There is work to be done, but there are many synergies that could improve both BB and HD immensely. More specifically, each “combination store” would profit by approximately $15,000 more than a BB store on its own, and this is a very important factor in the acquisition decision.