America's Pantry

Case Prompt

America's Pantry is a $20B packaged food manufacturer of some of America's most trusted brand names. Their family of 27 product lines covers everything from packaged cookies & crackers, cheeses and meats, to easy to prepare meals, frozen dinners and desserts. With over 50 years of history, AP products have been a staple in American's pantries from its first year of business. Customers love the reliable brands, consistent product taste and affordable prices. AP has built their company by making strategic acquisitions. Currently, AP is facing four key issues:
1) Recent trends in healthy eating and low carbohydrate consumption have surprised management and quickly threatened AP's overall business. In particular, the Atkin's and South Beach diets have bolstered this trend.
2) Consumer focus groups indicate that many customers who enjoyed AP products as children will not serve them to their own children because of concerns over obesity.
3) Additional challenges this last year have included sharp price increases in sugar and milk.
4) AP invested in safety improvements in all of the AP factories.
Over the last 12 months, profit fell over 20% (typical margins are around 20% of revenues).

Interviewer Initial Prompt: How would you help AP prioritize and solve these problems?

Additional Case Facts - Give to Candidate If Asked

- *Product Lines* – AP has over 27 different product lines including: cookies, crackers, specialty breads, healthy frozen dinners, frozen pizzas, cheeses, pasta meals and sandwich meats.
- *History* – AP has been around for over 50 years and is one of the most famous brands in the US.
- *Revenue by Product Line* – There is no specific information by product line.
- *Ingredients* – There is no specific information on product ingredients. In particular, there are no data indicating which product lines use more milk and sugar.
- *Milk and Sugar Trends* - There is no specific information on the price trend for these raw materials. Milk and sugar prices have behaved like most other commodities that go through a price shift.
- *Internal R&D* – AP does have an active internal product pipeline. The average time for a product to get developed and go to market is about 12-18 months. Tweaks to current products are 6 months.

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1. Ask the candidate to present their structure. Ask typical questions about revenue and costs. After they are done, ask the candidate to calculate the profit loss.

- Profit loss = $20B x 20% = $4B profit x .2 = $800M profit loss
- Review Tip: Candidates who do calculations early in the case often get to insights faster.

2. At our firm, we often like to help our clients by breaking down their revenue. For example, you can look at revenue by product line. Please break down revenue five different ways.

- Answers include: High carb vs. Low carb, distribution channels (grocery, big box, convenience stores), temperature (frozen, refrigerated, room temp), by location in grocery store, price points and customer demographics.

3. America's Pantry did the same analysis and found that seven high carb products caused 80% of the profit problem. What would you do with this data?

- 80% of $800M = $640M
- Most candidates will jump to the conclusion that <u>volume</u> is the problem. They will assume that because of the diets, people are no longer eating high carb products. The best candidates will ask about each variable in the profit equation.

Give answers in the following order:

- Prices have not changed. AP is known as a premium brand and they decided to keep their prices high.
- Costs have not changed. The managers of these seven products locked in long-term contracts with their suppliers.
- Volume has dropped by $640M. Through interviews with customers, they are finding the following trends: 1) consumers are snacking less, 2) when they do snack, they prefer high protein options, 3) there is a large increase in the number of high protein snack makers (e.g. protein bars).
- **Say, "By the way, the remaining 20% of the $800M is related to one-time issues. Sugar and milk prices will likely return to normal. And there will no longer be one-time investments in safety."**

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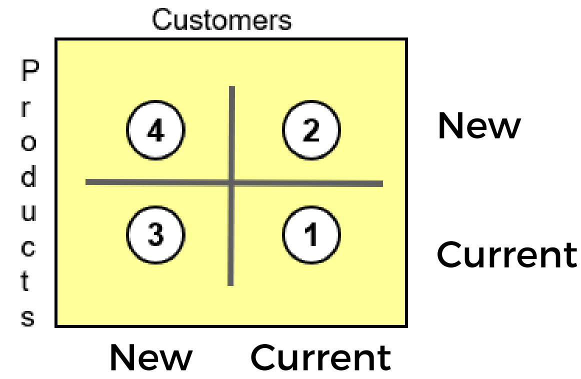
4. Now that we have established we have a $640M volume problem, how would you boost volume?

(It is highly unlikely that the candidate will create a 2x2 like shown. But, they will likely mention most of the same categories. Continue to give data piece by piece as they work through this section and keep asking, "anything else", until you have covered all topics.



1. Our current problem area. **“Current customers”** don’t want the **“current products."** (Go to questions 5 and 5a. When you are done return to this section.)
2. **Make** (new products, tweaks) or **Buy** (JV, partnership, acquisition) decision. (Go to question 6 and return to this section when done.)
3. New customers who like our current products. (Go to question 7 and return to this section when done.)
4. New customers will naturally appear once the new product line is developed.

5. Is that true that all customers do not like our current products? Can you think of any products that would be popular? (Let the candidate brainstorm first. If they review their initial notes this question is easy.)

- LIsten for things that are low carb like TV dinners and cheeses and meats.
- Say, "Cheese and meat appear to be about 30% of total profit at $4B, or about $1.2B. With a focus on high protein food sources for dieters, you could estimate 10-20% growth."

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5a. How much is that?

- $1.2B x 10-20% = $120M - $240M

6. New products take 18 months to develop. Product "tweaks" take 6-12 months because of food regulations. What could they do that is faster?

- Candidate should recall that they built the company on acquisitions. They are good at acquiring and integrating companies. Listen for any mention of acquiring new products.
- Say, "I will give you some data on acquisitions a little later."

7. When you say, "new customers who will like our current products, could you be more specific?"

- Non-US or Non-dieters
- Say, "If they expand to Canada, Mexico and the Midwest USA, their net new profit would be $50-$100M."

8. Sum up what we have learned so far

Suggested answer: Since AP is faced with a recurring $640M problem as the analysis showed, I would focus most of management's attention on the following to resolve it. Some short term recommendations include:

1. Find new markets for present products. $50-$100M in Canada and Mexico.
2. Work with the cheese and meat product lines to focus on marketing to dieters (potentially $120M - $240M).
3. Do acquisitions.

9. Here's what we know about acquisitions:

1. Read Chart A, column by column. Do not read the annul profit line at the bottom.
2. Then say, "We only have five minutes to review this data. You can acquire up to three companies max. What do you think?"
3. Candidate should say, "Even if we acquire the three biggest, we'll only bring in about $80M in profit."

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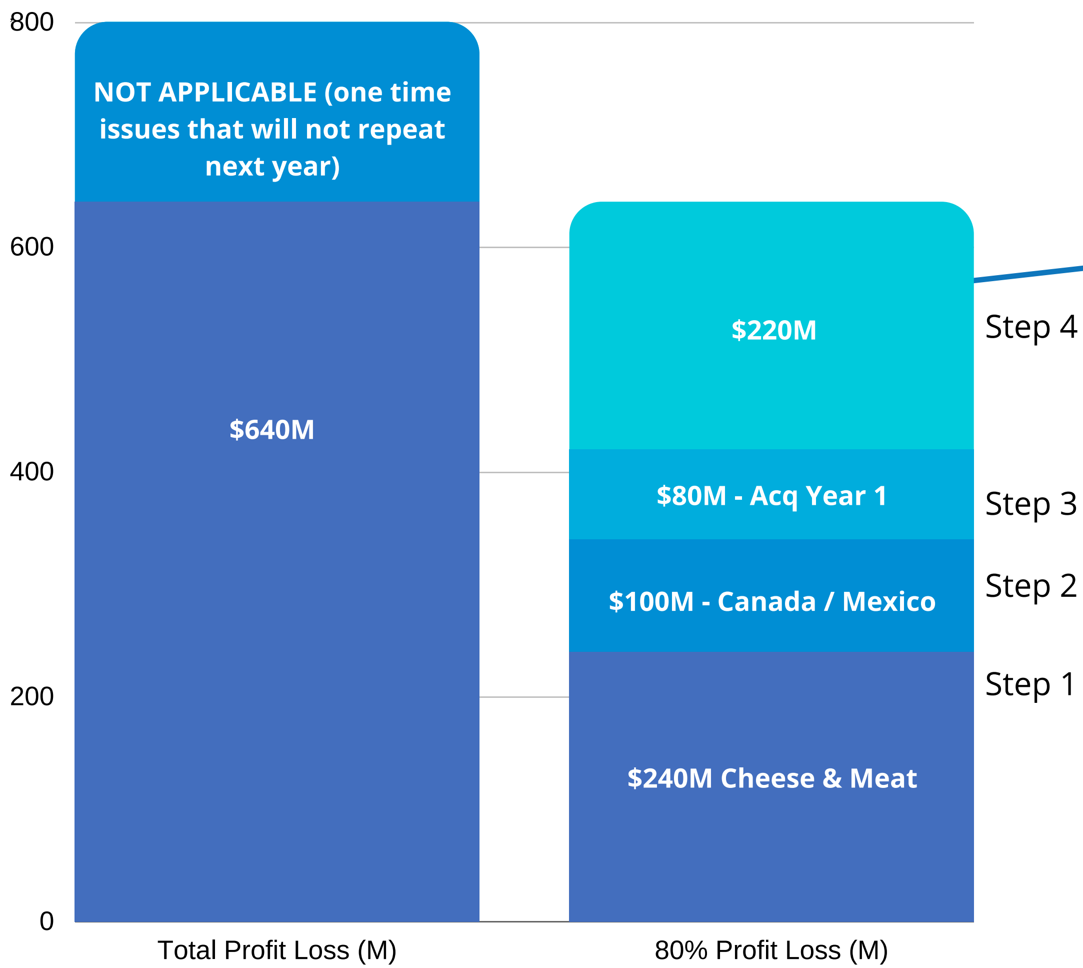
10. Wrap It Up. What do you recommend?

- Candidate should wrap up with an orderly structure.
- Below are steps that are logical given what the candidate has learned. Order can very.
- Be sure to emphasize that there still is a gap between the projects and the $640M problem. Prompt for ideas.



We need to find cost reductions or new revenue growth. Ideas include reviewing costs when doing the safety inspection. Also, trying to create a better pipeline of new products. Accelerating acquisitions, their strength, is another option.

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Chart A - Acquisition Data

Company Name	Oh So Organic	Nature's Way	Carb Sense	Light & Healthy	ZoneFull
Product Strengths	Only Organic	Only Organic	Healthy, not organic	Healthy, not organic	Healthy, not organic
	Loyal Customers	Growing customer base	Strong customer base	Fitness image	Diet program tie-in
	National Distribution	Major regions only	National distribution	National distribution	National Distribution
Potential Watch Outs	"Tasteless"	Margins trending down	Focused on women	Weak marketing	Strong tie to diet plan
	Uneven revenue	Not well-known	Artificial sweeteners	Not "kid's food"	Tradename lawsuit
Average Annual Rev (M)	**$85**	**$75**	**$125**	**$130**	**$145**
Estim. Annual Growth (%)	**25%**	**20%**	**25%**	**30%**	**25%**
Profit Margin (%)	**20%**	**18%**	**19%**	**20%**	**21%**
Annual Profit ($) Year 1 **(DO NOT TELL CANDIDATE)**	**$17**	**$14**	**$24**	**$26**	**$30**

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Chart B - Profit Overview (for review after the case)