

2023 Case Study – 24H Business Challenge
Preliminary Stage

Your task

Ruby Co., a fast-moving consumer goods company (FMCG) of foods, was founded over 20 years ago by Belgian entrepreneur Leiny Ruby. They manufacture and sell their products in Europe, North America, Asia, and Australia. Ruby entered the China market 10 years ago. Its main business in China is providing cakes, biscuits and snack foods to premium cafeterias (Mansion Hotel, Seaside Cafeteria, etc) and chain supermarkets (Dayfresh, Sunview Supermarket, Wande, Ricare, etc).

With more and more new entrants in the market of the cake industry, consumer tastes have become harder to satisfy. The intense market competition has forced Ruby to rethink its current business mode. Ruby invited you to join as a member of a project team to provide them with solutions for a new business mode in the China market, aiming at expanding its market share and increasing its brand awareness.

Your final presentation should include:

- Current operation status of Ruby in the China market
- The analysis of the China market within Ruby's business scope

Key points to note for the stage one

- The language of the proposal should be English
- No more than 15 pages, including the cover, abstracts, indexes, appendices, graphs, etc.

The following are the details of the case

Background:

Ruby's customers are mainly in the first and second tier cities. Ruby's China headquarter is in Shanghai, with more than 100 employees. They own four factories in Shanghai, Tianjin, Chengdu, and Xiamen. These four factories ship products to customers in their own region and each has a logistics partner. The key customers of them are the cafeterias in luxury resorts and chained supermarkets. Ruby's cakes are relatively sweet in Europe and America. Ruby's products in the Chinese market have been improved in taste, which not only retain the original secret recipe, but also meet the Chinese taste.

Leiny Ruby has retired last year. After his retirement, his son Bennlies took charge of the business. The intense market competition has forced Ruby to rethink its current business mode. Bennlies decided to change the business mode in China from ODM to DTC after adequate research. ODM refers to a company that is the original design manufacturer. These companies design and manufacture a product that is eventually sold by another company with that company's brand. In this case, the ODM does everything from designing the product to manufacturing it. DTC, direct to consumer, is a sales approach by which manufacturers and e-commerce brands sell directly into the marketplace without going through a traditional distribution network. In retail, the traditional supply chain starts with the manufacturer.

Ruby only runs cake business in China. Cakes usually have a shelf life of seven days, while biscuits can be kept for up to six months. The cakes it provides include large cakes, small cakes (cupcakes), breakfast muffins, and traditional waffles.

Income Statement

Simplified Consolidated Income Statement for Ruby China	2020 ¥ M	2019 ¥ M	2018 ¥ M
Revenue:			
Large cakes	361.4	310.7	284.9
Small cakes	439.6	344.8	302.9
Breakfast muffins	111.5	126.8	133.6
Traditional waffles	64.1	60.5	61.0
Total Revenue	976.6	842.8	782.4
Cost of goods sold:			
Large cakes	(189.6)	(183.3)	(180.4)
Small cakes	(241.8)	(206.8)	(196.5)
Breakfast muffins	(84.8)	(70.1)	(76.4)
Traditional waffles	(58.1)	(60.9)	(59.7)
Total cost of goods sold	(574.3)	(521.1)	(513.0)
Gross Profit	402.3	321.7	269.4
Distribution, selling and marketing expenses:			
Large cakes	(40.8)	(39.3)	(35.1)
Small cakes	(54.8)	(42.2)	(37.4)
Breakfast muffins	(15.7)	(17.1)	(16.2)
Traditional waffles	(10.5)	(11.0)	(13.0)
Total Distribution, selling and marketing expenses:	(121.8)	(109.6)	(101.7)
General and administrative expenses	(58.5)	(50.5)	(46.9)
Operating Profit	222.0	161.6	120.8
Interest receivable and other financial income	1.5	1.0	0.8
Interest payable and other financial charges	(60.6)	(54.9)	(43.4)
Tax	(48.8)	(32.3)	(23.5)
Profit/(loss) after tax	114.1	75.4	54.7

Induction to the DTC business mode

A direct-to-consumer firm supplies the products they make directly to consumers. It doesn't use traditional retail stores, distributors, or other "middlemen" channels. As a result, DTC companies can pitch their products at lower price points.

Furthermore, they can exert control over the entire process of creating, marketing, and distributing the products they sell.

So far, DTC has created a significant amount of flexibility for brands to connect with their ideal buyer. They can test out a variety of distribution models such as:

- Shipping products directly to consumers
- Embracing the 'pop-up' business model

- Partnering with a curated list of retailers
- Opening flagship storefronts

What they don't have to do is rely on traditional retailers to connect with customers.

Bennlies' expectations on Ruby China

Hi Hua,

Our strategic transformation has been implemented in Europe and the United States for several months, which has helped us to overcome the difficulties in growth and has even made some achievements in the market expansion.

It's inevitable that we transit to the DTC business mode in the Chinese market, as well. This would help Ruby to build a much stronger brand image among consumers and make more profits in the long run if operating properly. I would like to further discuss the following issues with you:

How to establish our brand among consumers in the first year of the transition?

How to adhere our values and standards throughout the entire process of the transition, e.g. always providing the best quality of products and service.

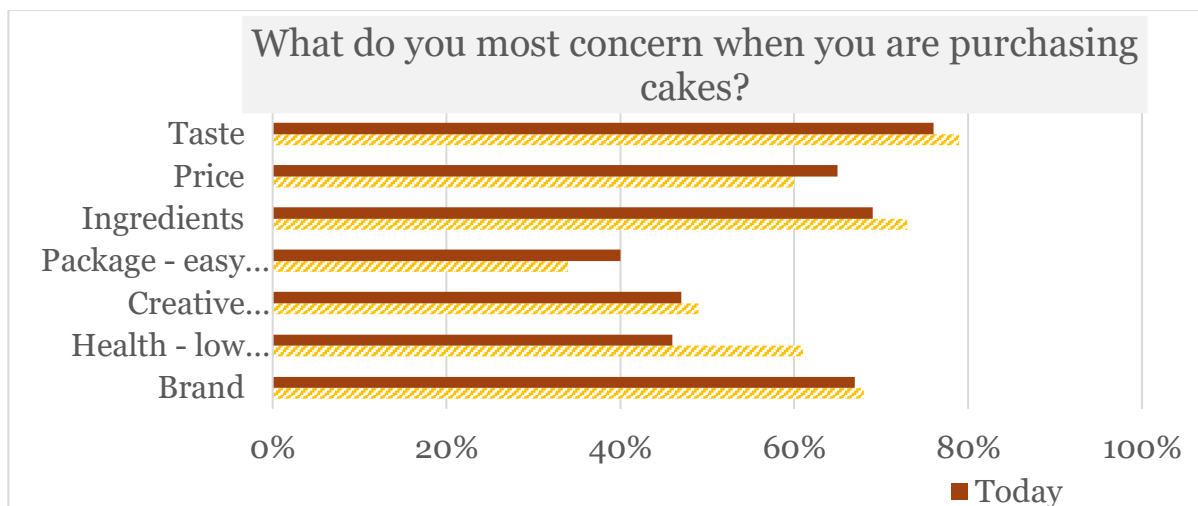
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Bennlies Ruby, Group CEO

Findings from a customer survey

The Marketing Director could not join the meeting today. He sent your team a recent customer survey launched by the Marketing Department.

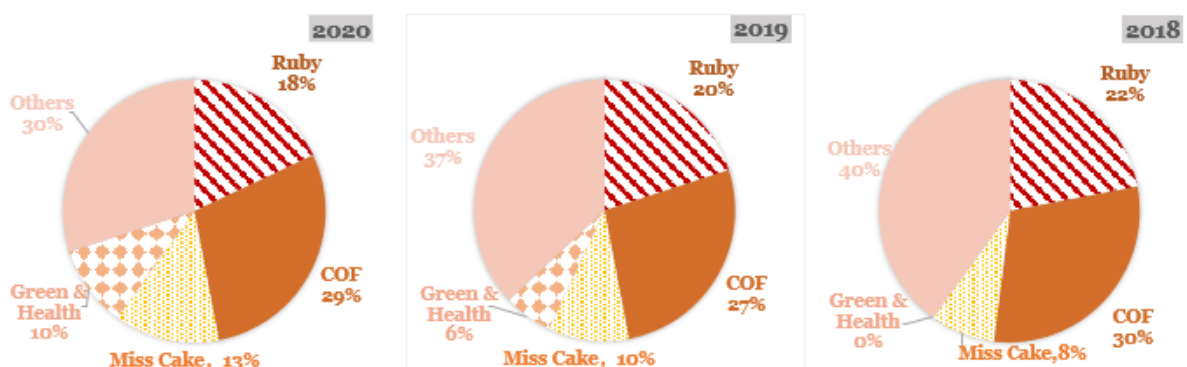
The 235 participants are from the first-tier and second-tier cities, aging from 20 to 35.



Information of competitors

- **COF Group:** A local enterprise, an early entrant of the Chinese market with long-time cooperation with local distributors, e.g. chained cake shops, foods courts, high-end hotels. COF started to run its online store on Jing Dong last year and is selling its own products at a relatively low price.
- **Miss Cake:** A cake producer, who sell cakes in its chained stores in major cities. Consumers can also place an order through its online portal and received the cake within 24 hours in the same city as the chained store locates. Its creative cakes are popular among children. Its current cooperation with coffee shops has pretty good market feedback.
- **Green & Health:** A startup, producing low-sugar cakes and drinks, whose off-line activities are very popular among young people.

Market Share:



New product's launch in a few months

The Research and Development Department of Ruby Group has been working on the low-sugar and sugar-substitute cakes since last year. The new recipe would be introduced as early as this November in Europe for some trial selling. If it goes well, we are expecting that at least 30% of our products will be using the new recipe globally from next year. And for the China market, we are expecting a target of at least 35%.

According to a recent survey on the new recipe, most of the consumers find that the cakes with sugar-substitute taste almost the same as the original products, and only less than 15% of the consumers can distinguish the new taste from the original one.