Case 7: Rotisserie Ranch

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Case Question

- Our client is Rotisserie Ranch, a poultry farming company that specializes in growing chickens for rotisserie roasting. Its main line customer segment is comprised of large grocery chains, who buy its chickens to fresh roast in the meat departments of their grocery stores. Market research has revealed to Rotisserie Ranch that more and more consumers have begun buying flavored rotisserie chickens recently.
- Rotisserie Ranch is thinking of pre-flavoring some of its chickens for grocers. Should Rotisserie Ranch begin selling this new product?

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Quants.

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Structure

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Case tracker

- **Industry:**
  Consumer Goods
- **Level of Difficulty:**
  Medium
- **Case format:**
  Developing a new product
- **Concepts being tested:**
  - Microeconomics
  - Elasticity
  - Customer strategy

Fit Questions

Spend first 15 min on fit

- What are your top 9 weaknesses? (Stress Test – If interviewee gets 9, ask for 9 more until they cannot answer)
- Ok, what are 9 of your strengths?
- Imply that interviewee answered the strengths much faster than the weaknesses and ask, why?

Guide to interviewer

- This case is similar in style to a McKinsey & Company 1st round case in that the *Interviewer* should drive the case.
- The case is primarily tests the ideas behind a new product introduction and forces the interviewee to consider market testing, profitability, etc. before rolling out a new product.
- Because this is a "Market Introduction" case, the interviewee SHOULD ask questions about *competition*.
  - For the purposes of this case, assume that Rotisserie Ranch will only compete against existing Private Label brands at grocery stores.

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Clarifying answers and case guide

Clarifying answers to provide if Asked

Industry Characteristics/Market Economics

- *Perishability*: Predicting demand for cooked chickens is difficult for grocers; any leftover cooked chickens at the end of the day are thrown out; unthawed chickens cannot be re-frozen

Client Characteristics

- *Competitive Advantage*: Client has patented process for sterilely packaging chicken, so that it will remain fresh for 30 days, making freezing unnecessary
- Client is currently the industry *market share leader* in rotisserie-ready chicken
- Four New "Flavored" Products to be introduced concurrently: Barbecue, lemon herb, tandori and teriyaki

Competitive Dynamics

- No competition in new product market due to patented process

Interviewer Guide to case and handouts

Case Structure – Interviewee's structure should include:

- *Value to customers (grocery chains) – Will they buy it?*
- *Revenue and Cost implications of new venture*
  - Cost increase to client is offset by price increase to grocers
- *Competition*
  - None. Competition freezes chicken so can't be pre-seasoned.

Prompt 1 & 2 – After Interviewee walks through structure, ask them:

- *Do you think that grocery retailers would be interested in pre-seasoned chickens from Rotisserie Ranch?*
  - No correct answer; however, should be logically defended
- *After several interviews, it turns out that the grocers are very interested in Rotisserie Ranch's proposed new product, but first they want to be sure that the Rotisserie Ranch chickens will sell well. How would you make sure?*
  - The correct answer is to run a test market.

Prompt 3 – After discussing Prompt 2, discuss the results of the market test:

- Assumes that the demand function for Rotisserie Ranch chickens is linear.
- Store 1 is comparable to test store A and store 2 to test store B

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Key elements to analyze

Value to Grocers

- Do *you think that grocery retailers would be interested in pre-seasoned chickens from Rotisserie Ranch?*

Market Testing

- After several interviews, grocers are interested in Rotisserie Ranch's proposed new product, but first they want to be sure that the chickens will sell well. *How would you make sure?*

Demand Elasticity

- A test market launch for the new Rotisserie Ranch BBQ chicken was administered (Hand out Exhibit 1).
- *Should the grocers carry our product?*

Prompt 1 Sample Answers

- Sample "YES" response:
  - *Labor Cost Reduction*: Meat department workers; don't need to spend time seasoning the chickens.
  - *Economies of Scale*: Seasoning centralization; lower cost.
  - *Product Consistency:* Centrally managed; able to spend more on R&D.
- Sample "No" response:
  - *Loss of Differentiation*: Grocery chains differentiate by value-added .
  - *Attune to Local Needs*: Likely to be better at gauging consumer tastes.
  - *Increases Inventory & SKUs.*

Prompt 2 Answer

- The correct answer is to run a test market for the new products.
  - The candidate may begin going into detail on how this test would be run. Cut him or her off as soon as you are comfortable that they understand that:
    - *A pilot test should be run.*
    - *The pilot needs to have some control or comparison group.*

Notes on Exhibit 1 & 2

- Using Exhibit 1, interviewee should calculate:
  - Retail Margin ($):
    - Store A: 25% x $4 = $1 Per Unit
    - Store B: 25% x $3 = $0.75 Per Unit
  - Gross Profit:
    - Store A: $1 Per Unit x 400 = $400
    - Store B: $0.75 Per Unit x 1000 = $750
- Cannot answer with Exhibit 1 alone, so they should ask for "Control Group" information: Hand out Exhibit 2 when this is asked
- Interviewee should calculate (NOTE: Answer is the same for both chicken types):
  - Variable Margin ($) Rotisserie:
    - Store 1: 30% x $3.33 - $0.20 = $1 /Unit
    - Store 2: 30% x $2.50 - $0.15 = $0.75 /Unit
  - Gross Profit Rotisserie:
    - Store 1: $1 Per Unit x 300 = $300
    - Store 2: $0.75 Per Unit x 800 = $600

Solution and recommendations

Solution & Recommendations

- Overall, our client should launch the Pre-Seasoned BBQ Chicken product and test other products because:
  - *Competitive Necessity*: Consumers are spending more money on seasoned rotisserie chicken than traditional rotisserie chicken and the market is shifting in this direction
  - *Benefit to Grocers*: Assuming test market was representative, Grocers can expect to earn $100 to $150 more gross profit using our client's product relative to their own "Private Label"
    - Cannibalization is not an issue because the variable margins and gross profits are the same on standard and seasoned rotisserie chicken, i.e. shifting from either of these products to our clients is a net benefit
  - *Benefit to Client:* Assuming that the increased price to the Grocers offsets the increased cost of production, our client will make more money due to increased sales of the new chicken

Bonus/Guide to an Excellent Case

- An excellent interviewee will note:
  - The benefit to the Grocers based on a linear interpretation of Demand, i.e. At a $3.50 price point, sales are expected to be 700 units. This give a variable margin of $0.875 /unit and total operating profit of $612.50
  - The benefit to the Grocers as percentages, i.e. Store 1 would gain 33.3% and store 2 would gain 25% to their operating profit by shifting to our client's product.
  - Potential scale benefits to our Client over time as more pre-seasoned chickens are sold
  - Potential labor reductions by grocers as the workload is "Outsourced" down the value chain to our client

Exhibit #1: Market Test of Pre-Seasoned BBQ Chicken

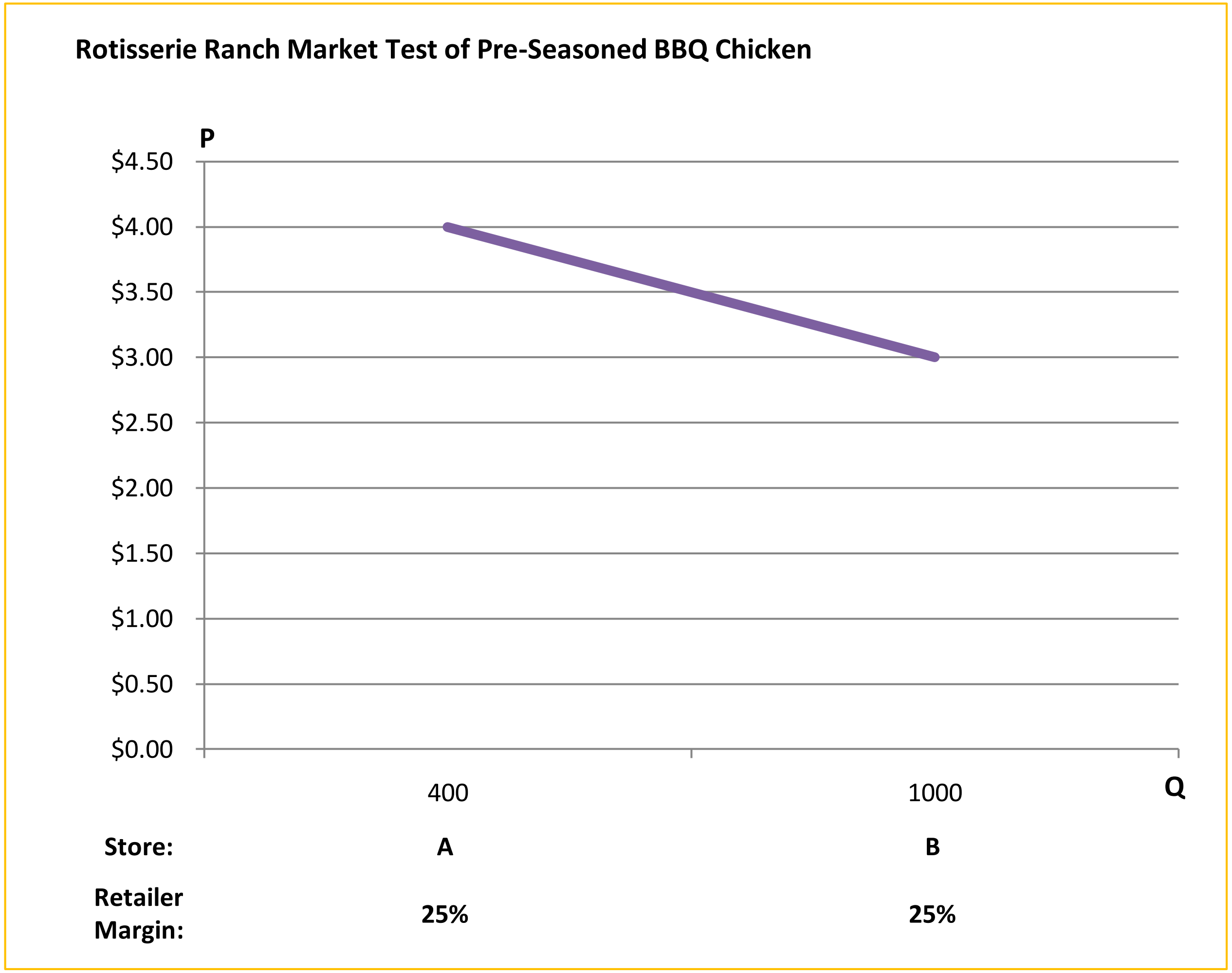

Exhibit #2: Control Group Stores

Standard Rotisserie

	Store 1	Store 2
Chicken Type	*Standard*	*Standard*
Weekly Sales	$1,000	$2,000
Retail Price	$3.33	$2.50
Seasoning Cost	$0.00	$0.00
Retailer Margin	30%	30%

Seasoned Rotisserie

	Store 1	Store 2
Chicken Type	*Store Seasoned*	*Store Seasoned*
Weekly Sales	$1,200	$2,400
Retail Price	$3.99	$2.99
Seasoning Cost	$0.20	$0.15
Retailer Margin	?	?