

Case 10: Zephyr Beverages

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Case Question

- Our client, Zephyr Beverages, is a division of a large consumer products company. The division produces fruit juices in three forms, all under the Zephyr name: chilled, juice boxes, and frozen concentrate. Zephyr had sales of \$600 million last year, about 3% of the company's overall sales of \$20 billion.
- The chilled segment represents \$120 million in sales per year. While juice boxes and frozen concentrate have been consistently profitable, chilled juices are only breaking even in good quarters and are losing money in bad quarters. Zephyr has received a proposal from upper management to sell the chilled juices business. We need to help them decide whether or not this is a good idea.

Case tracker

- **Industry:**
Consumer Goods
- **Level of Difficulty:**
Easy
- **Case format:**
Opportunity assessment
- **Concepts being tested:**
 - Competitive analysis
 - Capacity contraction

Fit Questions

- Spend first 15 min on fit**
- What do you do for fun?
 - What did you contribute in your last job that made a difference to the organization?
 - Outside of school and work, what is your greatest personal accomplishment?

Guide to interviewer

- This is a relatively short case that requires the candidate to create a holistic structure for solving the problem: what does Zephyr do with an underperforming business? It can divest chilled juices, sell its whole juice division, or remain in all its business. Any of the three possible solutions listed at the end can be argued, but the third solution makes the most economic sense.
- The candidate will need to ask for additional information that is necessary to solve the problem, rather than relying on the interviewer to dispense it all at once.

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Quants.

8

Structure



Comp. Als.
Capacity

Clarifying answers and case guide

Clarifying answers to provide if Asked

Industry Characteristics/Market Economics

- It has been growing at GDP the last few years and is projected to continue that growth rate.
- The market for chilled juices is dominated by mothers with young kids.
- Brand name is important in this market, as mothers tend to prefer reliable products. However, the brand premium must be in line with other branded products and all branded juices sell in the same price range.
- This is a highly price sensitive market that loves coupons, promotions, etc.

Competitive Dynamics

- This is a highly concentrated market. There has not been a lot of change, technological or otherwise, recently and there are no obvious entrants.

Interviewer Guide to Case

A sample case structure would include the following:

- 1) Identifying the options: sell chilled juice, sell all juice businesses, continue on with all businesses
- 2) Qualitative discussion of competitive dynamics
- 3) Discussion of product selection/components, as well as ways to cut costs

When asked, the interviewer can reveal the following additional information:

- Chilled beverages are a \$5 billion worldwide industry
- The two largest players have market shares of 40% and 25%, respectively. Zephyr's market share, 12% makes it third in the industry.
- The two market leaders are able to do more advertising, couponing, promotion, and trade than Zephyr is able to do. We do not know about their profitability, but assume it is positive.

Key elements to analyze

Competitive Dynamics

- Using basic information provided, interviewee should deep dive the competitive dynamics in further detail.

Product selection

- Using information about our products vs. our competitors, the interviewee should focus on discussion about how to cut costs.

Notes to interviewer

- Relevant info:
 - Bad market position: 12% vs. 40% and 25%
 - Assumed profitability differences
 - Disadvantage on trade promotions
- Interviewee should be able to see that Zephyr is at a serious disadvantage on all fronts as a smaller company that is both less profitable and less engaged in the kinds of trade promotions that key customers covet. The overall conclusion should be that this is a weak competitive position.

Notes to interviewer

- Relevant info (when asked):
 - The market leaders produce pure orange juice/blends based on citrus juices. Zephyr uses more elaborate blends, usually with a base of pear or peach juice (95% of inputs) and flavor with cranberries, bananas, mangoes, etc. (the other 5%). Pear and peach juice are a similarly price to orange juice, but the other flavorings cost about twice as much.
 - A plant in California produces all products; chilled, juice boxes and frozen. It would be difficult to find another use for the plant without a major conversion.
- This indicates that, despite a disadvantage, divesting is not realistic and there may be room for cost reduction based on reformulation to make Zephyr profitable.

Solution and recommendations

Solution & Recommendations

There are three possible solutions, with no right answer. The recommendation should be well-reasoned, comprehensive, and include as much relevant information as possible.

- Sell the chilled juice business. This would, however, affect the juice and frozen concentrate businesses, as there are both advertising and manufacturing synergies.
- Sell all of the juice business. This may be more feasible, as the buyer could capture the synergies, but would not be too likely to turn the business around. The selling price is likely to be low.
- Keep the chilled juice business and rework the ingredients and costs. This is the most feasible option, as evidenced by the success of the competitors. We are probably developing extra features in our ingredient mix that the market does not want and is not willing to pay for. Eliminating or scaling back those features will probably allow us to cut costs without affecting revenue.

Bonus/Guide to an Excellent Case

- Prospects who do well on this case will have to be comfortable with ambiguity and with a lack of perfect information. They will quickly grasp the issues and delve into the underlying qualitative discussions, coming up with a lot of additional risks/potential benefits for each option.
- Creative solutions beyond those listed are possible and encouraged, though should be done within the framework of the information available.