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Wahaca Price Promotion

Phil Neale, brand manager at Tesco, had recently taken over responsibility for Wahaca, a new line of organic Mexican products. Phil was pouring over results from a test of Wahaca salsa, tortillas, marinade and soft tacos in twenty of Tesco's stores. The test had already proven to Tesco management that Wahaca was a successful product line and should move into the launch phase. Neale wanted to use the test results to develop a price promotion strategy for salsas, which was an extremely competitive category.

Neale had obtained data for large (300 gram) and small size (200 gram) salsas. The two sizes of salsa had been tested in twenty store locations for ten weeks. Neal planned to use this data to develop a price promotion strategy for small size Wahaca salsas, which had been approved based on the test. Large size salsas were still not approved for launch by Tesco.

During the test period, the salsas had been discounted at a shallow and deep price promotion during five of the ten weeks. With the upcoming launch of the small size salsa, Neal wondered whether he should simply mimic the pricing that was used in the test or whether he should develop a new approach to price promotions.

The Wahaca Story

Wahaca was a successful chain of Mexican restaurants in the United Kingdom. Historically, Mexican cuisine in the U.K. had been dominated by low price, lower quality food with inauthentic ingredients. Thomasina Miers, co-founder of Wahaca, was inspired to bring higher quality, authentic Mexican cuisine to the U.K. market.

In 2007, Miers turned her vision to reality with the launch of Wahaca's first street-food style restaurant. Eight years later, Miers had grown the business to include 19 locations throughout London. In addition, Wahaca had opened two bars and two establishments they referred to as "street kitchens."

Wahaca products became so successful that they began selling salsa, tortillas, marinade and soft tacos out of their stores under their own brand name. In late 2015, Tesco approached Miers about selling the products through Tesco stores. In late March 2016, twenty Tesco stores participated in a test and offered the Wahaca line for 10 weeks.

In June 2016, the results of the test were reviewed by Wahaca and Tesco senior management. Both Tesco and Wahaca were pleased with the overall product launch. The test market had

included twelve different Wahaca SKUs and eight of these were successful enough to merit roll-out through all of Tesco stores.

Wahaca Salsa Price Promotions

Wahaca salsa was available in both 200g and 300g sizes in Tomatillo and Chipotle flavors. The small size was offered at a regular price of £1.79 in Tesco's highest price stores (zone 2). In Tesco's more price competitive stores (zone 1), the regular price was reduced to £1.59. The larger size was offered at £2.49 in all stores.

The testing plan called for the regular price to be offered on odd weeks and a price promotion to be offered on even weeks. Five weeks with both promoted and non-promoted prices would allow management to assess how Wahaca performed with and without price promotions. Janine Stiley, promotions manager at Tesco, commented: "We wanted to give the product a fair chance in our stores. Without price promotions it is tough to succeed. We don't run advertising campaigns for these types of tests and price promotions are one way to catch customer's attention in the store."

The small size was discounted to £1.19 on four weeks and £0.99 on one week. The large size was promoted at £1.99 during four weeks and £1.49 on one week. The deepest promotions coincided with Cinco de Mayo, which is a Mexican holiday that was gaining in popularity in the U.K. In 2016, media outlets and several Mexican restaurants in the UK promoted Cinco de Mayo.

Promotion Decision

Janine suggested to Phil they bring in Mike Gonzales, a recent addition to Tesco's analytics team to assist with the analysis. While Janine was not directly responsible for Wahaca, Phil valued her vast experience with price promotions at Tesco. As a new hire, Mike brought some analytics skills to the team that neither Phil or Janine possessed. With their assistance, Phil hoped to gain a deeper understanding of price promotions for Wahaca salsa.

Phil looked at Janine and Mike and stated: "Here's where we're at: the decision to launch Wahaca has already happened. That ship has sailed. But, we still have time to fine tune the price promotion plan for the second half of 2016. The current plan is to simply repeat the pricing from the test. That means price promotions of £1.19 for the small size on twelve different weeks in Q3 and Q4."

Phil went on to say: "I've talked to finance and Tesco's vendor list price is £1.00. During the promotions, we have an agreement with Wahaca for a scanback of £0.21, so our marginal cost during the promotion is £0.79."

Janine added: "I've spoken to my partner at Wahaca. As a small brand, they've been very transparent and are looking to us for help. They shared with us that their manufacturing cost is £0.60."

Phil wrapped up the meeting: "Mike, you have all the data and you can call us at any time. But, I really need for you to dig into the numbers more closely. Let's get together in a few days for you to tell us what you found. Then we can start to rationalize price promotions for small size salsa."

Wahaca Data

Variable	Definitioon
Store	Store Number (1 to 20)
Week	Week Number (1 to 10)
Holiday	1 = holiday week, 0 otherwise
Zone	Zone = 1 or 2
Units	Units sold
RegPrice	Regular Price
Price	Shelf Price (i.e. price paid)
Pop	Population in 10,000 (e.g., 6.8 = 68,000 population)