

SASSY SALSA

Profitability
Consumer Goods

Medium difficulty
Candidate-led case

This case focuses on improving a CPG company's margins to catch up to competitors. This is a good case for candidates who have never experienced a candidate-led case, where strong case leadership is required. It tests all elements of the case interview scorecard apart from Creativity.

Problem definition

Your client (Sassy Salsa) is the U.S. salsa division of a large global CPG conglomerate. They are the third-largest player in the U.S. salsa market, accounting for 16% of total salsa sales by volume. Despite this strong presence market share and healthy top-line growth of 6% year-over-year, our client's net margins remain low (~5%) compared to their competitors, who they believe have margins in the 15-20% range.

Salsa is a tomato-based dip and condiment popular in Mexican and Mexican-inspired cuisine. Salsas may vary in spice level (Mild, Medium, Hot, Extra Hot) or include "exotic" ingredients (e.g., mango salsa, garlic salsa). In the United States, most (~95%) tomatoes are grown in California. Our client has manufacturing facilities in the Northern part of the state, where they can take the tomatoes while they are still at peak freshness and bottle them into salsa (which is shelf-stable) prior to distribution.

Why is Sassy Salsa less profitable, and how can they boost their margins to match competitors?

Additional information

If asked at this stage or later, please share that:

- The number 1 and number 2 players have 22% and 19% market share, respectively
- While the parent company of the client sells other products (e.g., tortilla chips, marinara sauces, baked goods), our focus is solely on the salsa division
- Salsa sales are primarily through grocery stores and supermarkets, with a very small amount of sales to restaurant chains

Question 1 (Structuring)

What factors might be driving Sassy Salsa's lower margins??

Guidance for interviewer

A great answer may lead with cost in this case due to the growth in revenues mentioned in the prompt. At the same time, both areas should be explored thoroughly.

Possible answer

1. *How do Sassy Salsa's costs per jar compare to competitors?*
 - a. *Fixed costs:*
 - i. *Rent on manufacturing locations*
 - ii. *Machinery/Equipment (and its depreciation)*
 - iii. *Administrative costs (back-office staff, management)*
 - iv. *Marketing spend*
 - b. *Variable costs:*
 - i. *Ingredients*
 1. *Price per unit (e.g., is Sassy Salsa spending more per kg of tomatoes?)*
 2. *Mix (e.g., does Sassy Salsa's recipe use more garlic or expensive spices?)*
 - ii. *Labor costs*
 1. *Hourly wage for production staff by type (e.g., mixers, bottlers, quality control staff)*
 2. *Efficiency (e.g., how many hours does it take to make 100 kg of salsa?)*
 - iii. *Distribution/point of sale costs (e.g., discounting)*
2. *Revenues*
 - a. *Volume*
 - b. *Average Price:*
 - i. *Within channel (e.g., does Sassy Salsa sell at a lower price at Walmart than our competitors do?)*
 - ii. *Channel mix (e.g., is Sassy Salsa selling more through discount retailers than competitors?)*

Driver 1: Cost Analysis

Share Exhibit 1 with the candidate. We've obtained some data on Sassy Salsa's cost structure as it compares to their leading two competitors. What does this suggest could be at issue?

Additional information

Provide the below information only if requested by the candidate:

- El Gordo is the number 1 player, with 22% market share, while CaliDream is second, with 19%
- El Gordo produces in Arizona, while CaliDream's manufacturing facilities are also in Northern California
- All players use third-party-logistics providers for distribution, and are charged a similar price per truckload per km

Guidance to Interviewer

- Encourage the candidate to speculate as to "why" these differences might exist, hypothesizing potential explanations and identifying specific data that could help further refine the problem
- Exceptional candidates will note that since these data are percentages of costs and not of revenues, the absolute spend may not correspond to these numbers precisely
- Great candidates will recognize that the total difference in Transportation and Logistics costs is less than the gap defined in the prompt, requiring further analysis
- If the candidate does not push for possible reasons behind the cost of logistics, ask them why those might exist
- Do not share Exhibit 2 until the candidate has concluded their assessment of the data in Exhibit 1

Possible Answer

Sassy Salsa's cost structure is more or less in line with the average of its competitors on most dimensions, except that a higher share of its costs go to Transportation and Logistics, while a somewhat lower share goes towards Ingredients and Administrative costs.

Transportation and Logistics costs could be driven by two factors:

1. *Average distance travelled per jar*
2. *Cost per jar per km*

The former could be a function of where our sales route-running. Maybe our delivery trucks go back-and-forth to too many hubs, and more direct delivery would be helpful.

To understand cost per jar per km, it would be interesting to know whether Sassy Salsa does its own distribution or outsources it to a third-party provider, and how that compares to competitors. If there is no difference there, perhaps our trucks aren't packed as efficiently, or we ship in heavy glass jars instead of lighter plastic adding to fuel consumption.

If the lower spend on ingredients is true in absolute terms, while it appears to be a positive, though this could influence perceptions of quality and customer willingness to pay. Competitors might have organic salsas or a more "premium" offering, and see a revenue benefit that offsets those additional costs.

If we were to match our competitors' logistics costs, this would only improve our margins by ~6 percentage points. Since we currently have a gap of > 10%, this is a strong step in the right direction, but we will also need to look at our revenues.

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Exhibit 1: Share of Total Costs

Item	Sassy Salsa	El Gordo	CaliDream
Ingredients	35%	37%	38%
Labor	23%	22%	26%
Transportation/Logistics	12%	6%	7%
Rent	5%	4%	6%
Equipment Depreciation	9%	11%	8%
Administrative	6%	9%	7%
Marketing	10%	11%	8%

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Driver 1.B. Geographic Distribution

Share Exhibit 2 with the candidate. Here's a breakout of how Sassy Salsa's sales compare to the total U.S. market. **How does this affect their costs? What can they do about it?**

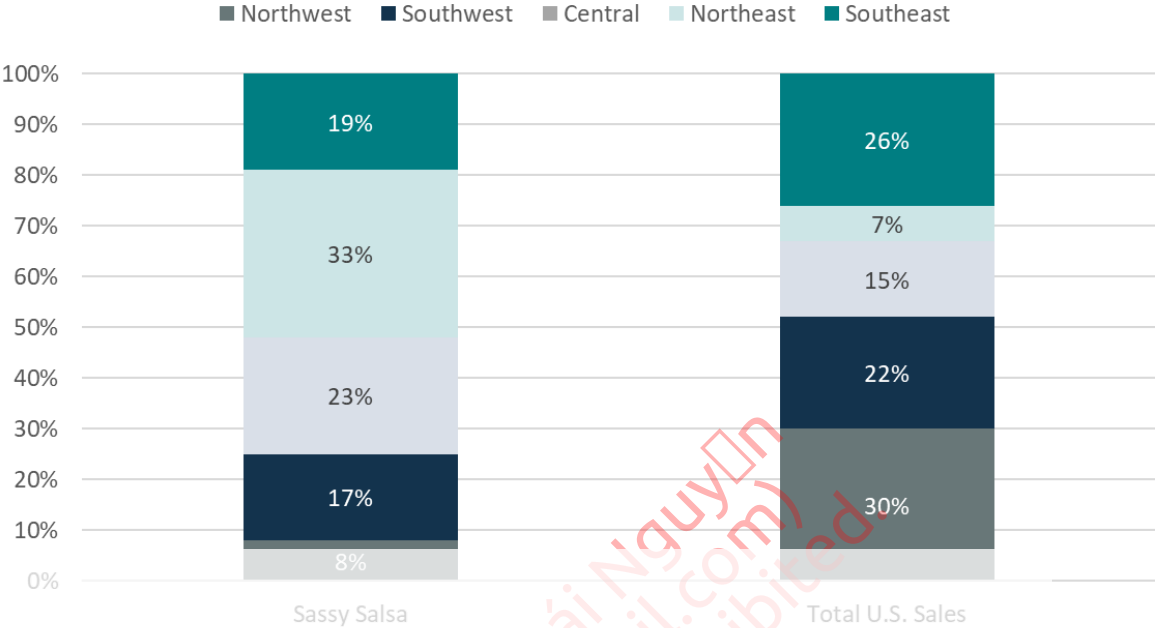
Possible Answer

Sassy Salsa is clearly over-indexed in the Northeast compared to the market as a whole, and under-represented in the Northwest and Southwest. This is likely pushing up their average logistics costs, as they need to transport products further than their competitors.

They have a few options for how to address this issue:

1. *Sell more in the Northwest*
 - a. *Organically:*
 - i. *Marketing*
 - ii. *Flavor/recipe changes*
 - iii. *Channel outreach*
 - iv. *Promotions*
 - b. *Acquisition:*
 - i. *A large local player*
 - ii. *Potentially with strong relationships with sales channels*
2. *Improve margins of selling in NE*
 - a. *Ship tanker trucks or tank cars of salsa to new bottling plant closer to NE*
 - b. *Negotiate lower logistics costs with TPL players*
 - c. *Raise prices selectively within the NE region. Note: Sassy Salsa has >50% of total U.S. sales in the Northeast (33% of Sassy Salsa sales in the Northeast, Sassy Salsa accounts for 16% of the total market, so $33\% \times 16\% = 5\%$. $5\% / 7\%$ National sales in the Northeast = 70% regional market share)*
 - d. *Build new manufacturing facility in the Northeast (Not recommended due to concerns over freshness)*

Exhibit 2: Geographic Mix of Sales



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Driver 3: Revenue Analysis

Share Exhibit 3 with the candidate. Here are some data on Sassy Salsa's sales volumes and average selling price. **How much of the margin difference is explainable by price?**

Additional information

Provide the below to candidate only on request:

- All salsas mentioned perform similarly in blind taste tests
- The prices listed are consistent across product type and channel of sales
- These are the prices that Sassy Salsa receives from the wholesalers, who will typically apply a flat percentage markup to retail sales

Guidance to Interviewer

- If the candidate starts to compute total profits for each competitor, remind them that the focus is on the margin impact
- Encourage candidates to keep the numbers precise; rounding by \$.01 is acceptable, but rounding multiple percentage points of impact is not.
- Note that

Possible answer

In order to understand the impact of price on Sassy Salsa's margins, I'd like to start by computing Sassy Salsa's current margins, then adding the new profits on top and computing their new margins

Sassy Salsa has 5% margins today, so their net profits are $.05 \times \$3.80$, or \$0.19 per jar. If they were able to charge \$4.00 per jar instead (and assuming that volumes of sales were not impacted), their profits would be $\$0.20 + \0.19 , or \$0.39 per jar.

$\$0.39/\$4.00 =$ nearly 10%, a ~5% improvement in margins, which partially (but not entirely) accounts for the 10 percentage point gap between us and our competitors.

This strongly suggests that Sassy Salsa should raise their prices, but poses some risks: consumers may be purchasing Sassy Salsa precisely because it is cheaper than competitors' products, and they might switch if we raise prices too much. In the absence of detailed customer elasticity data, I might suggest

raising our wholesale prices by ~\$0.15 per jar. This would allow us to pass on some of the cost savings to competitors, and I suspect that consumers who are price-motivated are not so finely-differentiated in their salsa preferences that they would “upgrade” to a more expensive product just because the differential has decreased.

Lastly, we could explore alternative options, e.g., shrinking our average jar size slightly. This could allow us to maintain the same price per jar at lower ingredient costs, but risks alienating customers; “shrinkflation” has been widely decried on the internet, and purchasers who look at the price by volume may notice.

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Exhibit 3: Price and Volume

Item	Sassy Salsa	El Gordo	CaliDream
Volumes (Millions of jars)	200	250	300
Retail price per jar	\$3.79	\$3.99	\$3.99

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Synthesis

What is your overall recommendation for Sassy Salsa?

Possible answer

We were engaged to help Sassy Salsa close the profitability gap with their competitors. In the short-term, we believe that raising wholesale prices to \$3.95 per jar can add nearly 5 percentage points of margin to their performance with relatively little impact on sales, as Sassy Salsa will retain a slight price advantage over CaliDream and El Gordo. Fully eliminating the gap, however, will likely require investment on the part of Sassy Salsa.

1/3 of Sassy Salsa's sales currently come from the Northeast, more than 4x the market average. This is pushing its logistics costs up substantially and depressing overall margins. Given concerns about tomatoes' freshness prior to bottling, however, shifting production may not be easy. We would recommend exploring the feasibility of shipping larger volumes of salsa for bottling closer to the point of sale to reduce transportation costs while preserving taste.

Additionally, if the parent company is willing to subsidize an acquisition, we might look into acquiring a company with strong relationships with West Coast distribution channels in hopes of finding some synergy and reducing our average distance to point-of-sale.

Lastly, we could explore further opportunities for margin improvement; while Sassy Salsa's labor and ingredient costs are comparable to competitors, additional technology investments or hedges on the commodity markets could improve their overall cost positioning further.

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