

Granny's Organics (1 of 2)

No Handouts

S Say

Start the case

- Granny O'Manny has become a local hero for her charming café and shop (Granny's Organics) offering wholesome, organic foods and interesting gifts and crafts.
- She's been in business for 10 years and likes to say that she "was organic before organic was cool". She has a strong network of local farmers who supply her with organically grown eggs, meats, fruits and vegetables.
- As Granny's success has grown she and her family staff have begun to feel overwhelmed by the complexity of their business. They offer over 500 different products in the shop and 30 different entree items in the café.
- They recently received a lot of press from a NYC food critic who hailed Granny's organic buckwheat pancakes as the best in the universe.
- A NYC venture capital team heard about Granny's organic pancakes and wants her to package the batter and sell it nationwide in grocery stores. They think she should cut back on the shop's offering and focus her energy on the pancake batter roll-out. They're offering financing, distribution and marketing expertise.
- **"What should Granny and her team do? What are all the key elements they should consider in this decision?"**

Be ready with more info if asked:

- All of Granny's products are organic. Customers travel up to 2 hours to eat her food and browse her shop.
- Shop offerings vary each year and are entirely based on whether or not Granny likes the products. She's very opinionated and values high quality.
- Current café and shop revenue is \$7M USD. Gross profit is 30%.
- Granny doesn't like debt and would want the pancake batter roll-out to pay off all investments at the end of year 3.

M Manage

Know what to manage

- This case focuses on **breadth, numbers and integration**. You will provide the numbers after the initial discussion.
- Be ready to test breadth by spending more time on the structure up front. Don't expect your answer and the candidate's to match.
- Expect a fairly exact number for the numbers calculation.
- A good recommendation will integrate the numbers and the softer (less data-driven) issues like consumer preferences.

Look for good structure (*this is a sample – expect variations*)

<i>Financials for new roll-out and current café/shop</i>	<i>Market growth and stability for batter roll-out</i>	<i>Competitors for the batter roll-out</i>	<i>Risks to current success, consumer loyalty</i>
<ul style="list-style-type: none"> ▪ Profit - What are the margins for current products and the batter? <ul style="list-style-type: none"> ➢ Revenues (V x P) minus Costs ▪ Pricing - Can pricing be increased at the shop? What are the prices for the batter? ▪ Volume - How sensitive is volume to price for the batter? ▪ Costs - What costs have risen the most? Can they be reduced? 	<ul style="list-style-type: none"> ▪ Growth projection - Do we know how fast it will grow? ▪ Stability - Are there any concerns that the product could be a fad? ▪ Distribution - What broad set of channels can be used to distribute the product? ▪ International - Can we grow outside the US? 	<ul style="list-style-type: none"> ▪ Do we know who we will compete against? ▪ How established are they? ▪ Do we know their growth projections? ▪ Will competitors launch copycat products? 	<ul style="list-style-type: none"> ▪ What role does the shop play in maintaining Granny's fame? ▪ Will moving Granny's focus to batter hinder the café and shop's success? ▪ Although consumer's like Granny's organic products, how loyal will they be long term?

Granny's Organics (2 of 2)

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A Ask

Ask specific questions to keep the case on track. Remember your goals for this case: breadth, numbers and integration. Ask questions that help you assess those skills.

- (BREADTH)** "If you were trying to lay out an approach to this problem, what else would you include?" (e.g. if the person forgets to put "risks" in his structure).
- (BREADTH & NUMBERS)** "I think this is a pretty solid structure. What data would you explore to best advise Granny?" (The financial information is the most critical. He should be looking for projected sales and cost estimates based on the venture capital firm's projections.)
- (NUMBERS)** "Now that we've covered your approach, let's look at some data (read this, do not show). Can you calculate how much batter Granny expects to sell in dollars at the end of year three?"



	End of Year 1 Revenue	End of Year 3 Expected Revenue	Answers do not give
Granny's Organics	3,000,000	30% revenue growth each year	5,070,000
Estimated price	6.99	12% each year	\$8.77
Total revenue	\$20,970,000	---	\$44,455,058

- (NUMBERS)** "Good. Your number is very close to what they found for estimates. The three year investment total is \$14M to build out the business. Granny wants to pay off the venture firm's investment with profit from year 3. What net profit margin does she need to make to pay off the \$14M? "

- 80/20 Answer = \$14M loan / \$44.5M revenue = 31.5%. OR, "about 32%".

- (INTEGRATION)** "Granny's pretty impressed with the kind of profit the batter roll-out could make but she's leery of dealing with outside investors. They want 30% of all profits for five years and have talked about selling their shares at the end of that time."

"What options does she have going forward? What's your advice?"

- **Recommendation (sample approach):** Granny should pursue the deal as it is a better option than self-financing or pursuing other investors.
 - **Assumption:** Granny will pursue rolling out the organic batter.
 - **Option 1: Work with outside investors.** Assuming similar profit margins, Granny will make \$4.4M (21M x 30% x 70% (Granny's share)) in year one and \$9.3M at the end of year 3. Assuming an average of \$7M for all 5 years, that's \$35M of profit before paying off the loan. The shop and café was only grossing \$2.1M (\$7M x 30%) and probably netting far less. Batter profit is very high.
 - **Option 2: Self finance.** Granny could use her current business to roll-out the batter more slowly. Her current profit seems thin though and this may be challenging. Plus, she and her team do not have mass distribution and marketing experience.
 - **Option 3: Find other investors.** It will be time consuming and a new deal will likely be competitive with the venture capital firm's deal. It may be difficult to find financing and expertise combined.

R Role Play

- If you are limited on time, focus on practicing the start to the case.
 - Present each part of the structure in clear groups ("first, . . . second, . . ."). Have the candidate do the same.
- Role play the numbers section by having the candidate talk through the numbers while calculating them. Have the candidate show his work.

T Track

- **Breadth** – give feedback on where the initial structure was lacking.
- **Numbers** – talk through some simple math that the candidate could practice. For instance, learning to calculate in thirds, quarters and halves.
- **Integration** – If parts of the discussion were missed, check the notes and talk about ways to improve note taking.