

FREE CASE

Please enjoy this free case from our Crack the Case System Case Library.
Visit mbacase.com for more free cases and companion videos.

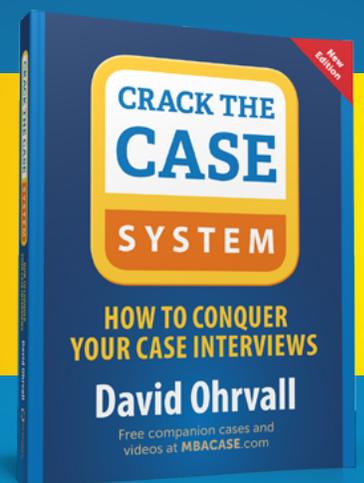
Crack the Case System available now on Amazon.

CASE **702**

Houdini Pretzel

David Ohrvall

FOUNDER OF MBACASE.COM



Houdini Pretzel

Santiago, Chile

Houdini Pretzel is all tied up in knots about what to do. Branded profits are falling and private label competitors may be the culprit. See if you can unravel this twisted tale.

702
FULL
★★★

SANTIAGO CITY FACTS

- ▶ Located at the foot of the Andean Mountain Range
- ▶ One of the few cities in the world with access to both beaches and ski slopes
- ▶ Generates 45% of the country's GDP



TRAIN Profile

Type	Region	Analysis	Industry	Number
<p>4 FULL BUSINESS</p>	<p>SANTIAGO, CHILE Population: 5M Currency: Chilean peso</p>	<p>ROADMAP → 12</p> <p>Competitor Attack</p>	<p>Outsourcing</p>	<p>LEVEL 3</p>

Solo Practice with Video Assist

1. Find your videos
2. Set up
3. Listen to question
4. Recap
5. Create your plan
6. Present your plan
7. Stop and study
8. Reinforce



30 minutes

Partner Practice

1. Set up
2. Present the case question
3. Recap
4. Create your plan
5. Present your plan
6. Stop and study
7. Reinforce

Interview Guide

Case Situation and Question

Houdini Pretzel, maker of Pretzel Twists and Ties, is a \$175M division of a large snack food conglomerate. Houdini is the largest manufacturer of pretzels in Chile. Sabroso, S.A. is second, with approximately \$145M in sales. Like most manufacturers, Houdini improves factory utilization by making private label products for grocery chains. These chains sell private label pretzels that compete directly with Houdini and Sabroso. In recent months, Houdini management has seen sales slip, largely due to a drop in private label prices. Also, Houdini has had to fight to maintain shelf space, as grocery chains are featuring their own products more prominently.

What should Houdini do to reverse this trend and increase their sales?

Case Twist

This situation turns nasty. Several grocery chains threaten to drastically reduce shelf space unless Houdini continues the reduced production pricing.

What would you do?

Feedback

Physical Skills

	Weak		Strong
Body Language	①	②	③
Verbal	①	②	③
Listening	①	②	③

Thinking Skills

Hypothesis Generation	①	②	③
Comfort with Ambiguity	①	②	③
Initial Plan & Output	①	②	③
Data Analysis	①	②	③
Basic Business Intuition	①	②	③
Integration	①	②	③
2nd Level Insights	①	②	③
Creativity	①	②	③

Total Score _____ / 33

Intro Facts (Tell the Candidate if Asked)

Products: Pretzel twists, ties and rods packaged in party-sized bags

Competitors: Houdini Pretzel and Sabroso make up over 70% of industry revenue. Private label products contribute an additional 15%.

How Private Label (PL) Works:

Private label products are the generic products you find in your grocery stores. They typically are sold under a brand name that matches the store name (e.g. "Acme Foods"). Grocery stores have their generic products produced by the same manufacturers that make branded product. Usually the generic recipes are slightly different and often of lesser quality.

Branded Company Perspective on PL:

Companies that have branded products try to fill the excess capacity in their plants with private label products. They don't like to compete with these private label products, but often regard them as a necessary evil.

Key Insights (Do Not Tell the Candidate)

Historical Pricing: In slide Handout A, prices for private label have begun to fall since October Year 1. Houdini and Sabroso have stayed relatively constant.

Pricing Gap: Since October Year 1, the pricing gap between Houdini's pretzels and private labels has exceeded 15 cents. When the savings per unit is this large, consumers switch from Houdini's to private label products.

Volume Change: The shift in pricing gap has caused a reduction in the volume of pretzels Houdini sells.

Plant Manger Incentives: Plant managers have an incentive structure that affects their personal bonus. If they keep plant capacity above 90% then there are no "losses" to the company. If the plant utilization falls below 90% then the company loses money. These "losses" are accounting measures though, and are not necessarily actual bottom-line dollars.

Mid-case Data (Tell Only at Appropriate Time)

After giving Handouts A, B and C, check for these insights:

- Houdini has lost \$7.2M since this problem began.
- Volume has been declining steadily since October Year 1. Something happened in October.
- When the price gap between Houdini and private label exceeds 15 cents, customers switch to private label. At that price point the private label product is too cheap to pass up.

After checking for the insights, say this and give Handout D:

- "Let me tell you about some other changes at Houdini. About 10 months ago they finished implementing some new plant equipment, designed to increase efficiency. You should know that for every point below 90%, Houdini's accounting system assumes a loss of \$50,000 per month. Given that metric, how much have they lost since October of Year 1?"

After giving Handout D, check for these insights:

- Plants that installed the new equipment to be more efficient saw their plant utilization drop as more product was going through the plant faster.
- Because of this drop in utilization, Houdini has lost \$6M according to internal accounting metrics.
- Managers gave these discounts, without the knowledge of senior management, to protect their bonuses.

Case Flow and Milestones

1 Present Main Question	2 Answer Any Basics	3 Ask for Clarification	4 Guide Discussion	5 Get Recommendation
Candidate takes notes, asks for a minute, forms a plan and presents it.	Questions may come up after you read the main question. Look for those answers under Intro Facts.	Prompt for clarification with questions like, "Tell me more about this area (you choose). What are you thinking about here?" or "Tell me how the parts of your structure link to each other." Look for clear connections between each part of the plan.	Direct the Candidate by giving handouts A, B and C. Check the Handout and Data Guide for more details. Also, it is important before giving Handout D to update the Candidate on some changes that the company has made to their plants.	Once the insights from all the slides have sunk in, the Candidate should be able to integrate and come to a conclusion. Test to see that he has a prioritized list. Refer to the Case Insights & Takeaways to understand a logical path forward.

Handout and Data Guide

Handout A:
Candidate: Do you have any pricing data?
Interviewer: Here's some unit volume and price data for the past 2 years. What trend do you see?
Insight: As private label prices declined, total Houdini sales volume also declined.
Volume is down considerably. Prices for both Houdini and Sabroso have remained stable.



Handout B:
Candidate: Do you have Houdini prices vs private vs. label prices?
Interviewer: Here's another way to look at the price gap (Handout A) between Houdini and the private label brands. What jumps out at you?
Insight: The gap increased for several months and then leveled off. The price gap correlates to the volume drop (Handout A).



Handout C:
Candidate: Do you have any more detail on the unit sales?
Interviewer: Here's a detailed view of the volume on slide A. What's the insight here?
Insight: Unit sales have been off consistently since the end of Year 1 and into Year 2. The volume drop corresponds to the increase in price gap between Houdini and the PL brands.



Handout D:
Candidate: Do you have any plant utilization information?
Interviewer: Here is some utilization information by plant that you may want to review. How much is the loss? Why do you think the utilization rates went down?
Insight: 15 points x \$50K = \$750K x 8 months = \$6M. Utilization rates fell because the new equipment was considerably more efficient.



Additional Info

When you press the candidate for a final answer, he may be tempted to fix the internal incentive problem. It seems that the plant managers made a poor decision so it makes sense to realign incentives. But, the real priority is to get sales back in line to their levels of 10 months ago. The internal metrics change is important, but it will not boost sales.

You may want to prompt the candidate with a question or comment like this:

- "What is the most important problem you should solve first?" or
- "Which problem is costing the company more?" or
- "Which problem is hurting the company's future growth the most?"



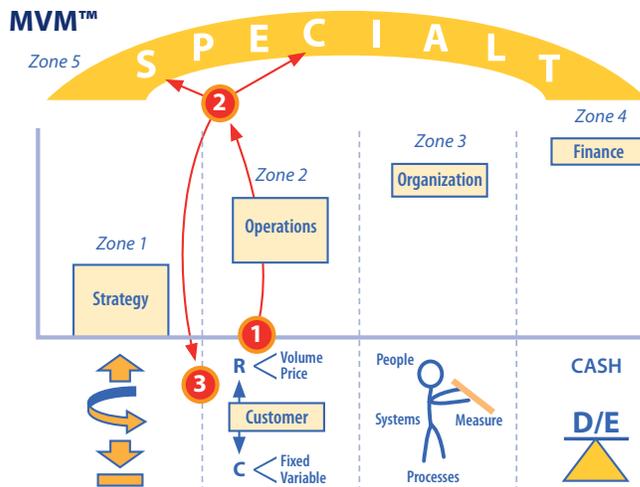
Re-routers

Questions to Keep Things on Track

- **Do you think there is a direct cause for the private label reduction in retail prices?**
 - ▶ We know that the price drop is consistent for all private label.
 - ▶ We know that Houdini supplies almost 80% of all private label.
 - ▶ Cause and effect is likely.
- **Do you think that customers will behave in a consistent pattern?**
 - ▶ Customers tend to change behavior when prices reach a certain level.
- ▶ Food products are especially sensitive to these changes.
- **What additional data would you like to see?**
- **How can you make your answer more quantitative?**
- **What specific insight does this data give you?**

Additional Study Using the FRAME Method

F – Form a Plan



M—Mine for the Answer

How good were your questions? Typically it is good to try to ask 2–3 questions in any section you explore. Here are some good areas and examples.

Houdini Volume

- **Have private label prices dropped?**
Yes. Sharp downturn in Oct Year 1 (Handout A).
- **Do the PL price drop and the Houdini volume drop correlate?**
Yes. When the price gap between branded and PL exceeds 15¢, customers switch to PL.
- **Does volume fluctuate seasonally?**
Yes. There's a slight increase in summer.

PL Company Costs

- **What have PL companies historically been charged for production?**
There's no data on typical charges.
- **Does Houdini sell much product to PL companies?**
Yes, several plants produce a large portion of PL.
- **Is the manufacturing cost the majority of the costs to produce?**
Yes. PL companies leverage the labor force and distribution channels in place.

Supplier Power

- **Do private label companies have many options for production?**
No. Houdini produces 80% of the product. Sabroso can't take on more PL.
- **Can Houdini control how much they charge PL manufacturers?**
Yes. Contracts are not long-term; many Houdini plants recently reduced the price they charge PL companies.

Competitors

- **Has Sabroso's volume dropped over the last 10 months?**
No. Sabroso produces little PL product. Their branded product is stable.
- **Are grocery stores pushing out Houdini's product?**
No. They are pushing their own but understand Houdini's draw. Pretzel sales push high-margin soft drink sales.

Industry Trends

- **Have overall pretzel sales dropped or been displaced?**
No data to indicate anything has changed in overall industry pretzel sales.
- **Are consumers eating cheaper brands of pretzels?**
No macro trend exists. Some consumers will keep switching between branded pretzels and private label depending on the price.

Shelf Space

- **Has Houdini shelf space dropped at grocery chains?**
No. They have had pressure in that direction but it has not been consistent across stores.
- **Would a reduction in display space affect the volume of product sold?**
It would have minimal impact since Houdini's distribution process keeps fresh product in stock.

1. Start in Zone 2, Operations/Revenue:

Review volume and price to assess the size of the problem.

- Volume – When did units start dropping off? Was it sharp or gradual?
- Price – What is the price gap between Houdini and the PL companies? When did it change? Does it correlate to the volume change?

2. Move to Zone 5, External Forces:

Explore two areas:

- Supplier – Houdini supplies some PL brands. Has Houdini changed its pricing for PL customers?
- Competitors – Houdini competes with the grocery stores' PL products but also needs the stores' shelf space. If Houdini charges more to produce PL products, how will Sabroso respond?

3. Return to Zone 2, Price: Can Houdini increase manufacturing prices? If time permits, look for additional costs to cut. Cost reductions will shield Houdini from additional price decreases.

A – Anchor a Hypothesis

You do not need to explain your hypothesis to the interviewer, but use this mental anchor to help you structure your questions as you move through your plan. Here are some potential hunches:

Pricing: "Houdini is getting beaten at price. Maybe they should consider lowering price to get their market share back."

Supplier Power: "Since Houdini produces product for private label companies, I wonder what kind of control they have over the price they offer the PL companies."

Competitors: "PL companies may be getting better prices from competitors, who are trying to erode Houdini's market share."

E – End the Case

Be firm and use data. Here's an option: "Houdini is looking at an erosion of about \$7M of revenue over eight months, or a little less than 5% of sales. The cause of the decline was a bad decision on the part of the plant managers to give the grocery chains a 5¢ per unit reduction. This seemingly small discount gave private label the ability to siphon some of our customers and reduce our sales volume. Our first priority is to get volume back. Since Sabroso is at full capacity, we control most of the private label production. My conclusion is that we should raise prices. To address the utilization problem in the plant we should consider plant consolidation and new business leads."

Post Case Review

Case Insights & Takeaways

Ideas to consider in order of importance:

- 1. Stop bleeding revenue.** Houdini's revenue decline is the result of special pricing for private label companies. If the price gap becomes less than 15 cents, customers will likely return. Houdini has capacity their competitors lack, so Houdini can name its price with grocery chains needing private label production.
- 2. Fix internal metrics and accountability.** Plant managers chose poorly because their performance measurements did not account for new equipment. They need new measurement systems and more checks and balances on decisions.
- 3. Protect shelf space.** As market leader, Houdini commands prime retail shelf space. To maintain shelf space as pretzel sales climb, Houdini should give stores more marketing incentives, or develop other negotiating tactics.

How Does It Tie Together?

Houdini is in the driver's seat in this situation:

- They gave the price break to the private label companies (and can take it back).
- They are the largest manufacturer for PL and can control price.
- Losing shelf space is not a huge threat since the Houdini product is in demand.

Houdini's priority is to reduce the volume drop and persuade consumers to switch back:

- Pushing PL price back to its historical levels will most likely work.
- Consumers may not readily switch back to Houdini. They may find the private label quality to be acceptable.

My Takeaways

To build skills and improve, you must apply what you learned to future cases. Take a few moments and review the interviewer feedback and jot down some key insights about your performance in the space below.

Thinking Skills

My top 2 strengths are:

My top 2 soft spots are:

To address these problems I'll begin to:

Click or scan QR to see video.

My Performance During the Case

Add up your points. → Total Score: _____ / 15

F	Form A Plan	R	Read My Audience	A	Anchor a Hypothesis	M	Mine for Answers	E	End the Case
points	<ul style="list-style-type: none"> ③ Structured, clean ② Somewhat organized and logical ① Messy, overlapping ideas 	points	<ul style="list-style-type: none"> ③ Good back & forth, caught clues ② Awkward, trouble with interviewer style ① Interviewer not interested, couldn't follow 	points	<ul style="list-style-type: none"> ③ Solid hunch, pursued clue ② Partial direction ① No hypothesis at all 	points	<ul style="list-style-type: none"> ③ Specific questions, solid analysis ② Missed some questions, some math mistakes ① Vague questions, weak math, no linkages 	points	<ul style="list-style-type: none"> ③ Used facts and data, connected the dots ② Some data, mostly understood connections ① No data, no passion, no connections

HOUDINI PRETZEL

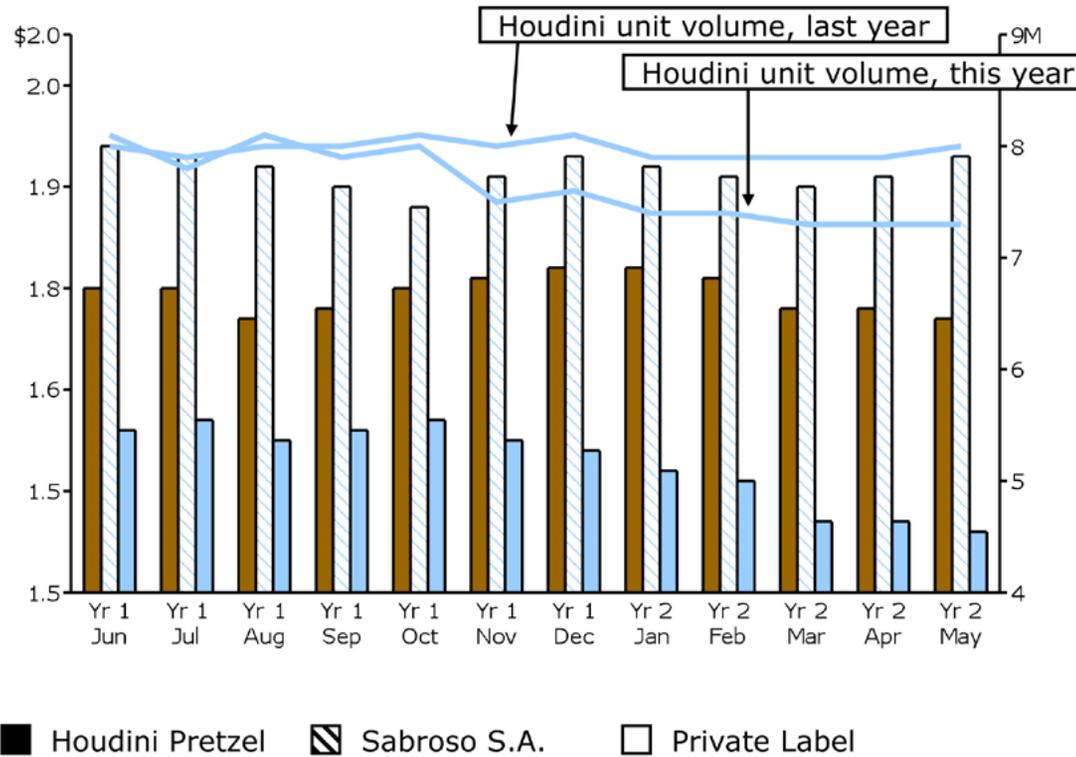


HANDOUT A

Houdini Pretzel
Santiago, Chile

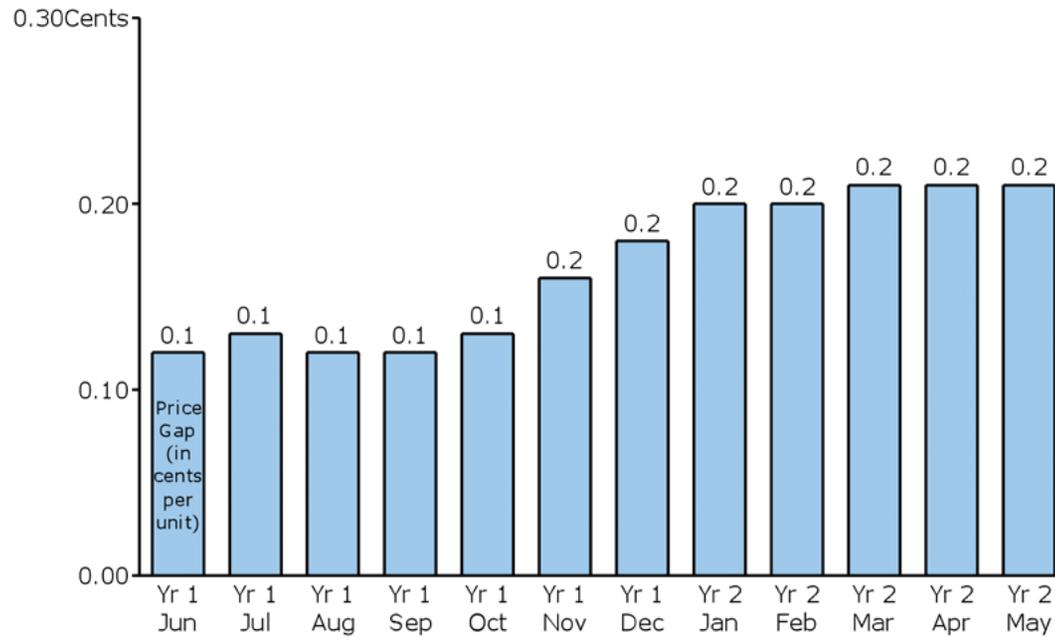
12 Month Price Trend (Unit Volume Past 2 Years)

Revenue and Gross Margin (in US\$) Units Sold (in M)

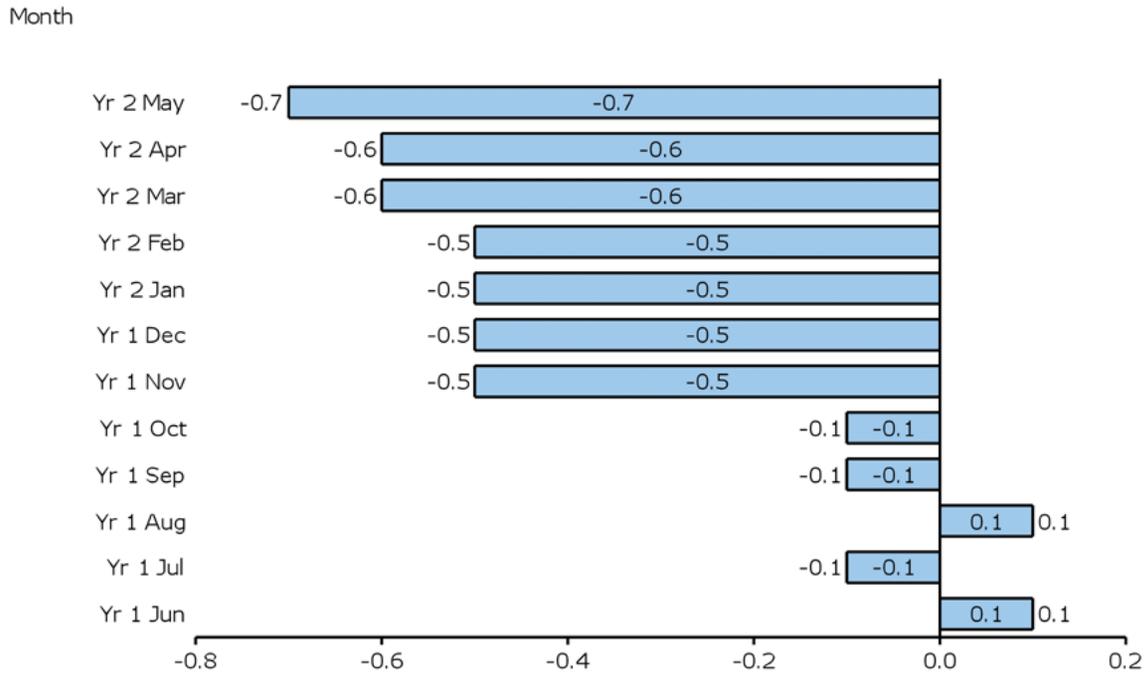


Houdini Minus Private Label 12 Month Price Gap

Gap in Cents

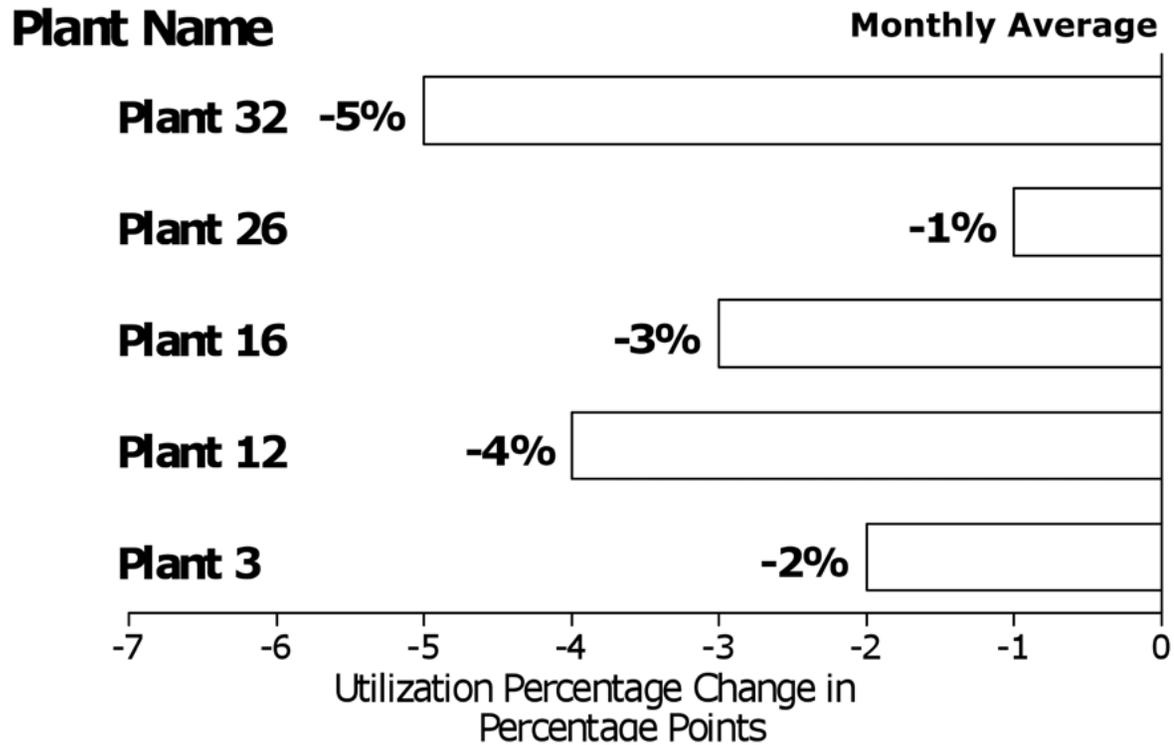


Houdini Unit Sales This Year Minus Last Year



Difference (This Year Minus Last Year) in Millions of Units

Post-implementation Utilization Change (Utilization Points below 90% threshold)

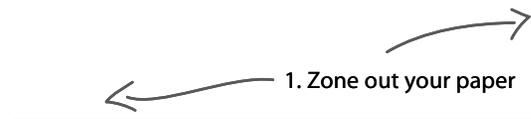


Today's date:

2. Be original with your data

4. Leave ample room for a structure and additional notes as the case progresses

1. Zone out your paper



3. Take clean and simple notes

HOUDINI PRETZEL

Potential Plan and Output

How can Houdini reverse the drop in sales?

Rev - \$175M division
 Large snack food conglomer.
 Sabroso, SA, \$145M
 Profit?
 Goal: reverse drop in sales

- Pretzel twists and ties
- Houdini makes private label
- PL competes with Houdini & Sabroso
- Sales down due to PL price drop
- Shelf space becoming an issue



HUNCH: PL prices are down and customers are price sensitive. Houdini may have to lower price.



Voiceover

"There are several issues I would like to explore: the reasons for the revenue decrease, how price and volume have changed over time; and I'd like to know more about external factors like suppliers and competitors. Together I think these issues will get to the bottom of the problem. If we have time we can also talk about any actions that competitors are taking. I would like to start with revenue, unless you would prefer me to begin elsewhere."

Click or scan QR to see video.

Additional Study: For more questions to consider, review Section 13: Roadmaps.