Emma's JAMBROSIA

Emma's Jambrosia Mfg. Ltd.
Box 142,
Crescent Valley, B.C.,
Canada, V0G 1H0
604-359-7166

# EMMA'S JAMBROSIA: AN ANALYSIS

## INTRODUCTION

The examination of our business that took place during the decision making process that led to our decision to,shut down, and the time spent since in preparing the business for sale, have given us many opportunities to examine the factors that led to EMMA's downfall. Members of the EMMA's Jambrosia collective met and discussed these factors in the hope that other small businesses, be they LEAD projects or not, could benefit from our experience. The following is the result of our analyses.

## I. Insoluble Problems

Many of the factors leading to EMMA's dissolution were, and always have been, beyond our control. Primary among these was our lack of chøice in location, from which many other problems devolved. At the time that EMMA's became a reality, there was not suitable building available for a jam making business in or immediately aronfid Nelson, so one had to be finished to our specifications. That building was located in Crescent Valley, rather than Nelson. The problems that would be involved in such a location were not immediately apparent to us, though they certainly are now.

### A. Lack of Choice in Location

The lack of a suitable building being available led to a considerable time delay in actually setting up the business and in actually setting up the production area, as the equipment could not be set up until the building was complete. The time delay was extremely costly, as is shown in the first year "cost-per-case" of $105.

Recommendation: EMMA's would recommend an "infrastrusture phase" for manufacturing projects. Without an infrastructure phase, set-up costs are wrongly absorbed as part of a projects "operating" budget, leaving a project (in this case, EMMA's Jambrosia) in a large financial hole.

### B. Freight Costs

EMMMAs was located six miles north of the,junction of Highways 3A and 6, and twenty-four miles east of the junction of Highways 3 and 3A. All freight companies impose a surcharge for freight carried off major routes, which for EMMA's was a toal of thirity miles. This freight surcharge was a factor in the following ways:

1. Additional freight costs increased the fixed cost-per-case, as almost all raw materials costs were increased:

(a) ingredients: fruit, lemon juice, pectin

(b) packaging: glassware, caps, labels

2. Additional capitalscosts for the freight paid on machinery.

3. Increased marketing wosts:

(a) delivery costs for marketing and advertising materials such as glossies, shelf talkers, and display units.

(b) increased costs in preparation of advertising materials, through courier costs for delivery of proofs, etc.

(c) increased transportation costs for attendance at trade fairs, for both staff and display units

4. Increased overhead costs:

(a) shopping for goods and materials via long distance

(b) mileage costs, as staff had to go to Nelson for even the most basic cleaning and office supplies, including copying facilities

5. The "prepaid shipping" arrangement required of suppliers by the grocery market increased our costs, and decreased the amount received per case that could be applied towards overhead or other costs.

6. Freight costs incurred by our Eastern health food distributors, with whom we did not have a prepaid shipping arrangement,limited sales volume in Eastern Canada. Costs to the distributor were $1.00 - $2.00 per case higher than if goods had been shipped from a major centre such as Vancouver or Calgary, making EMMA's less competitive with U.S. imports and lowering our sales volume to the East.

C. <u>Leasehold and Set-Up Costs</u>

Our location in a small centre meant that we paid premium prices for the materials and labour involved in the intial start-up. This "only game in town" situation meant that often only one tradesperson would be available for installation and servicing (e.g. start-up plumbing costs) andaEMMAEMMA's was forced to pay that increased cost either through dealing with the one available tradesperson or through the cost of bringing another tradesperson from a more distant location.

D. Size of the Company (Big Business vs. Small Business)

The size of EMMA's (i.e. volume of sales, volume of raw materials necessary to complete finished goods for that volume of sales) was such that our raw materials costs were much higher than they would have been had we been a larger company with more "pprchasing power". Even with the most optimistic view of sales, the volume of raw materials to be purchased was far less than that needed to get "price breaks". In essence, there is a price surcharge on small volumes of raw materials, and therefore a price surcharge against small and medium sized businesses. For example, EMMA's required approximately 45 pallets of glassware for one year's production. Price reductions for glassware started with a minimum order of 100 pallets. Similar difficulties applied to all other raw materials, and also to advertising expenditures, where there are considerable price reductions for placing an advertisement more than once per year.

E. Overhead Costs

In EMMA's location, with a production volume of approximately 1500 cases/month, overhead costs were fixed at approximately 20%. This is far too high a perfcetage in relation to income from sales.

F. Marketing Costs

There are three available strategies for a new manufacturer to pursue in developing a level of acceptance for a new product:

1. Time: If a company is able to generate a sufficient amount of "word-of-mouth" publicity, through a cumulation of individuals exposed to the product, and is able to generate a certain amount of "free" publicity through media coverage, these factors combined may create a product demand. This straegy is inexpensive but time consuming.

2. "Penetration" Pricing: A product being introduced into a "full" category such as the jams/preserves section can establish itself through underpricing the majority of its competitors for a lengthy introductory period, approximately one year to eighteen months.

3. Extensive Advertising/Marketing Support: Should time and/or penetration pricing be unavailable as marketing strategies, a compnay introducing a new product must be prepared to provide extensive (expensive) advertising support throughout the introductory period.

IN summary, consumer buying patterns are static. Consumers are moved to try a new product through curiosity (generated by publicity or advertising) or by price differentials. Each strategy is costly. In addition, there are certain marketing expenses (co-op advettising, volume rebates, discount periods) fixed by the industry itself. A company unwilling or unable to pay these expenses will simply not have its product(s) listed.

Without a full-time marketing person available from the initiation of the project, EMMA was unable to make adequate use of time as a strategy. It was illegal for EMMA to use a penetration pricing strategy. And even though marketing costs as a percentage of sales were set at 34% for 1985/86, this was an insufficient sumeto provide the "extensive" support required. (As a comparison, Kraft spent $425,000. per year for three years on the introduction of its "Fruit Basket" jams, Colgate spent $1.5 million on a three-month introduction of its new "pump" dispenser, Dare spent over $3 million on a six month introduction of its soft chocolate chip cookie, etc.) These are advertising costs only, separate from promotional expenses such as discounts to wholesalers,)and regular marketing expenses such as co-op advertising and volume rebates.)

It is clear that a marketing budget that is 34% of sales generated is a barriet to self-sufficiency. However, it is necessary and probably essential for a food industry manufacturer to have access to a promotional budget of this size if the company is to establish itself in the marketplace. Once established, the marketing budget should shrink to an industry standard size of 18 - 24% of sales (EMMA's 1986/87 marketing budget was 23% of sales). It

Recommendations: 1. A full-time marketing person should be on staff from the inception of any food manufacturing project. When on staff from inception, the marketing person can make effective use of her/his publicist skills to generate free publicity, and work towards creating product demand.

Should there be an infrastructure phase, the marketing person should come on staff during that phase to research the market and develop a market penetration plan that could make effective use of time and word-of-mouth publicity. Market research is also essential for the development of effective packaging graphics, pricing realities, and industry expectations of marketing/advertising support.

2. Extraordinary Marketing/Advertising Costs: It should be understood that the establishment of a new product in the food industry requires a certain level of marketing and advertising expenditure during the period that the product is establishing itself in the marketplace. A project should expect to have marketing/advertising costs above the industry standard (which differs depending on product category, but generally runs between 15 - 25%) during the establishing phase.

EMMA's lack of a full-time marketing person from start-up contributed to:

1. inappropriate packaging graphics
2. erroneous estimation of the size and location of the market
3. erroneous assumption about the price for which the product could be sold
4. an inadequate assessment of the requirements for selling in the grocery market

Correct assumptions and adequate assessments were eventually arrived at by EMMA (through hiring a marketing consultant on contract, a salesperson/researcher on contract, and eventually a full-time marketing person), but it was too little, too late.

It should be noted that it is our assessment that we see this problem as "insoluble" insofar as LEAP discouraged us from having a full-time marketing person, and EMMA's mistake, that we were not insistent about the necessity of having such a person. Perhaps our experience can remove the necessity for a project to be insistent about the necessity of effective marketing for a food manufacturing project.

G. Selling Price of Finished Product

The selling price of any finished product is "what the market will bear", and in that sense the price is set by the purchaser rather than the manufacturer/seller. In the jam/preserves category, EMMA's was faced with setting wwholesale price that would put the product on the retail shelf for under or at least close to a price ceiling of $2.00 for a 250 ml (8 oz.) jar, established by the industry. To be on the shelf for that price, EMMA's was forced to sell the finished product for $17.00 per case or less. The alternative was a drastic reduction in sales volume.

H. Market Conditions

The Canadian retail grocery market is increasingly divided into two categories, a low volume premium priced specialty category, and a high volume generic/bulk category.

This division decreases the size of the market available for a product such as EMMA's, as the decreasing non-generic, non-bulk shelf space is "reserved" for established market brands such as Kraft. Only an adequate marketing/advertising support program is likely to dissuade purchasers from going with established brands.

I. Limitations of Available Equipment

The equipment available for our projected capacity is very limited. Within these limitations, the best piece of equipment for any particular job was chosen, although EMMA's acknowledges that our lack of expertise in food processing technology may have led to some wrong choices. Specific examples:

1. Piston filler: Although described as suitable for the hot-filling of products, we ran into problems with hot-filling with this machine. Given the available literature on piston fillers, however, we thought we were making the right choice. This machine also had problems handling the seeded fruits (raspberries, strawberries), and had to be taken apart and cleaned partway through the day's run of either.

2. Labeller: The Labellette is the only semi-automatic labelling machine available. It is excessively labour-intensive, requiring time consuming set-up and take-down procedures, in addition to having inadequacies as a labelling machine, as it will not tack down label edges, forcing the operator to perform this step by hand.

Recommendatipns: 1. An infrastructure phase during which equipment can be adequately assessed and perhaps tested in operation.

2. Any food manufacturing project will require expertise, in food processing technology. If this is unavailable within the project group, there must be provision for the acquiring of such expertise by one or more project members, or through the use of a consultant whose skills are appropriate to the food processing facility being planned. (Had EMMA's attempted to hire a consultant, we would probably not have been able to find one with the appropriate small-scale expertise.) If it impossible to acquire the skills any other way, we would suggest that an interim manager with these skills should be hired by the project, to pass on skills to project employees.

J. Limitations of Available Capital

The limitations on the capital funds available to EMMA's Jambrosia during their first two years of operations meant that EMMA was unable to purchase, at the time they were needed, essential items of equipment i.e. the labeller, handling equipment, a conveyor, and a blender. (Funds were transferred out of operating expenses during the second year to buy some of these items of equipment, leaving EMMA with an inadequate operating budget, and a year-end debt of $18,000.)

With these pieces of equipment unavailable at the time they were needed, labour costs increased, and the project generally was excessively labour-intensive.

Recommendation: Adequate capital funds be available.

The Expansion Bind: Although it is possible that LEAD might have supplied the capital funds necessary to purchase the equipment configuration that became necessary for EMMA's to achieve self-sufficiency, such an equipment configuration would have necessitated the move to a larger building. Even if a suitable building had been available for rent, it would not have been sensible for us to rent a building in view of our extensive investment in leasehold. The financing problems involved in purchasing a building proved too much for us. There was serious difficulty in finding other funds to allow such a purchase. When the funds were offered, they involved enormous personal liability, and it was in fact questionable as to whether, even with enormous personal liability, we would have been able to secure the line of credit. Also, the cost of maintaining such a line of credit destroys the benefits of financing and cuts into the savings made by increased productivity.

It is hard, if not impossible, to justify the cost-per-job at this level of capitalization.

It is an axiom in the business world that the end result of over-capitalizations is bankruptcy.

K. Barriers to U.S. Market Entry

EMMA's extensively researched the requirmments involved in exporting to the U.S. prior to making any attempt to do so. All regulations pertaining to labelling of imported products wasevveyy carefully researched, as were the regulations applying to duty classification. The end result of our research was a conviction that our proposed U.S. label met all U.S. FDA requirements, and that our productswould be assessed at a cettain duty rate.

Neither assumption was correct. Entering the U.S. market during an upswing of U.S. trade protectionism, EMMA's found their label declared "unsuitable", and their product assessed at a considerably higher rate of duty than we had previously been advised it would by U.S. officials.

Both the delay from the held shipment and the unexpected duty classification were extremely costly.

J. The Retail Food Industry is full of thieves and graft

1. Archibald Brokers signed a distribution contract with us, being in complete violation of the contract at the time of signing.

2. Western Grocers offered us a complete listing for EMMA's Jambrosia if we would produce $10,000.

3. Safeway Alberta said they "loved the stuff" but wanted commitments to an expensive advertising campaign before they would list the product.

etc.

## SECTION TWO: EMMA'S MISTAKES

### 1. No Full-Time Marketing Person/Lack of Market Research

In retrospect, EMMA would be much more insistent about the necessity of having a full-time marketing person on staff from day one of the project. We made a mistake in underestimating the role of ahmarketing person, and in overestimating the extent to which "this stuff will sell itself". This assumption led to EMMA setting certain priorities in terms of hiring which left it without a full time marketing person until well into Year Two.

The lack of market research resulted in the problems previously listed in this section under "insoluble problems".

### 2. Overestimating Equipment Capacity

We relied on the available literature and information given to us by sales representatives in estimating the capacity of the equipment we purchased. In some cases, as with the piston filler, these estimations proved incorrect. Without having an infrastructure phase during which we could adequately assess equipment capacity, we were essentially stuck with what we bought. Even without an infrastructure phase, we perhaps should have been more careful in assessing our equipment shoices.

### 3. Lack of a Computer

A computer should have been regarded as an essential piece of equipment that needed to be on-stream from the beginning of operations. This piece of equipment would have more thanppaid for itself in cost/efficiency terms. The labour time saved in the bookkeeping area would have been tremendous. Our financial and ordering planning could have been fuller. A word processor would have saved time in all phases of the business, but especially in the marketing area.

### 4. Purchasing

It is possible that we would have been able to reduce some costs had all purchases been comparison shopped.

### 5. Need for Hydraulic Lift

The lack of a mechanical lift system for the transport of raw materials from the basement ot the production room floor meant losses in labour time, and excessive physical wear-and-tear on employees. The process and timing of shopping for and installing such a lift were a problem, as was our lack of shared understanding of the costs that could have been saved through its installation.

### 6. Lack of Mechanical Capper

Although this may not have saved us much in terms of labour time, it would have been invaluable in saving employees' wrists. Once again, we underestimated the value of a piece of equipment.

7. Underestimating Freight Costs

We seriously underestimated freight costs in/out in terms of "cost of goods sold".

8. Conveyor

Purchased to reduce production problems, the conveyor increased both the noise level and perhaps the amount of work in the production room, while its lack of adequate refrigeration meant that it was inadequate for the job it was purchased to do. More research and thinking through may havehhelped us here, although at the time of purchase it was virtually the only alternative (it was in fact custom designed for us, as no appropriate conveyor seemed to be available on the market).

9. Living by Our Principles/Naivete

From the start, EMMA's attempted to be honest with everyone we dealt with: suppliers, purchasers, the media. That we assumed that these people would deal with us in a similar manner we knowsee as a mistake. Some examples:

(a) Archibald Brokers: The decision to hire Archibald Brokers was made under pressure, and followed the rejection of our product by most of the major grocery chains. We did not understand at that time that the retail grocery market is essentially and "old boys' network" in which we were an amusing anomaly, not to be taken seriously, or, alternatively, to be taken for all we were worth. We believed what the representatives (including the president and the sales manager) of Archibald told us. When we asked for a principle list (a list of firms already represented) and were told it was being reprinted, we should have waited to see it before committing ourselves to a contract. When Archibald failed to fulfill its contractual obligations about reporting to us, we should have been insistent that they do so, rather than accepting their excuses of overwork.

(b) B.C. Grocery Market: The trip to the Prairies, out of which the Archibald fiasco arose, was undettaken because of our conviction that we had to wait to recover from Lifestream's presentation of Jambrosia in B.C. (with the old label) before going after the B.C. grocery market once again. It is probable that this assumption was erroneous, and that we could in fact have gone after the B.C. grocery market, in which we were eventually very successful, rather than going to the Prairies.

(c) Cash Flow: Rather than being so quick to pay our suppliers, we could have adopted standard industry practice, which is to expect and push for 30 days on} payabteblew, while allowing payables to go 60 and 90 days.

(d) Purchases: Perhaps with more "hard-nosed" dealing, we would have found some better bargains among our suppliers.

(e) Fruit Quality: While we always paid for #1 quality fruit, we didn't always receive it. We should have made arrangements to inspect samples of all fruit being sent to us. This may have saved us time/money in both our cleaning and inspection processes, and may have reduced the number of jars rejected during the inspection process.

SECTION THREE: EMMA'S SUCCESSES

1. The amount of free publicity genereated.
2. The taste (the recipe we developed).
3. The second label design.
4. The design of our point-of-purchase materials and shelf talkers.
5. Consistently the top seller in our category in the Canadian health food market.
6. Excellent sales in the B.C. grocery market: this came from an excellent choice (we learn from our mistakes) of a B.C. broker (Western Mandate).
7. Many women learned an awful lot about business.
8. The creation of 7 jobs, and the skills learnt in those jobs by 7 women.
9. Maintainence of equipment by us, saving costs and acquiring skills.
10. Good utilization of existing skills.
11. Excellent financial presentations/understanding, that resulted in getting a line-of-credit and the ASEP loan.
12. All financial dealings always well handled.
13. On the whole, integrity as a company in a business world seriously lacking in it.
14. Serving as a role model for other businesses, and passing on our knowledge.
15. Even after we well the equipment and raw materials, we will still have the name and recipes as assets, without having to pay storage on them.
16. Our level of preparedness for financial presentations, tade shows, workshops, and day-to-day business dealings.
17. Exceptionally high production standards, and standards of cleanliness. Even when working 12 and 14 hours a day, those standards were never relaxed..
18. The way in which we closed it down, ensuring that no other business suffered.