Notes on Case

"Lakota Hills"

Introduction/Overview of the Case

The Lakota Hills case follows Laura Ryan, a Native American who has taken her family's special recipe for fry bread from her kitchen to supermarkets all over the Midwest United States. But is her current strategy of selling to grocery stores the best way to build her family's specialty foods venture? This case provides an excellent overview of the entrepreneurial process, including creating value, channel marketing, and fund-raising. The case includes metrics that will work for MBA-level discussions and analysis.

The case provides a detailed background of Laura and her education and early start in the entrepreneurial process. She weaves her education between the entrepreneurial pursuits and also manages her growing family. With many skills and abilities (teaching, quilting, fry bread,) the introductory history at the beginning of the case profiles Laura so students can assess her background.

The case emphasizes the content of Chapter Two in that it presents the strategies, habits, attitudes, and behaviors of the lead entrepreneur Laura Ryan and her family as they work to build a high-potential venture. Laura is internally motivated, has high-energy, and we see her unique tolerance for ambiguity as she moves from various jobs, educational programs, and entrepreneurial ventures. See exhibits a keen eye toward mitigating risk and has the passion for discovery and innovation stressed in Chapter Two.

The key focus for students to consider after studying the case is whether Laura Ryan fits the seven dominant themes of an entrepreneur -- commitment and determination; courage; leadership; opportunity obsession; tolerance of risk, ambiguity, and uncertainty; creativity, self-reliance, and adaptability; and motivation to excel). Students should quickly recognize that she does and has acquired the 50,000 chunks of experience discussed in the chapter.

The case ends with Laura pondering strategies to grow the fry bread business in grocery stores and other outlets. The marketing process, dealing with food brokers and the need to constantly be in the stores providing samples to customers is stressing the small team at the same time their expenses are rising. She and her son Michael must consider the trade-offs, the logistics, and the costs of various options for expanding the business. Case flow projections are provided to aid the decision-making.

Positioning and Objectives of the Case

The case is positioned to follow Chapter Two – The Entrepreneurial Mind: Crafting a Personal Entrepreneurial Strategy. The case can be covered early in the course to profile a classic entrepreneur as they move through the new venture process. It also presents an interesting opportunity to learn about Native American people, their culture, and their food. This may be unfamiliar to most students and represents an interesting opportunity for students to consider how they'd feel about this new fry bread product if they encountered it in their supermarket or specialty food retailer. Students may find Laura's process leading up to starting the fry bread business interesting. Students should discuss her training, education, and past entrepreneurial experiences and hypothesize how these helped to shape Laura as an entrepreneur. The case also presents dialogue from her son Michael who doesn't like having the assembly operations in their home kitchen and we follow his entry into the business as a full-time general manager. With the two profiles, students have a chance to assess the small entrepreneurial team together. This case has rich material for an in-class discussion during one full class period covering the entrepreneur Laura and her personal entrepreneurial strategy. Coverage of the financial information and projections could be the subject of a second class period if desired (this may be more appropriate for senior-level students or MBA students after they have completed a finance or accounting class).

Preparation Questions

These questions should be assigned as homework for students as they prepare the case for the subsequent class discussion. Answers to these preparation questions are as follows:

1. Discuss the challenges and advantages of developing a specialty food business.

<u>Challenges:</u>

- difficult to secure supermarket placement
- difficult to learn the retail grocery industry
- hard to read brokers and buyers as to their interest
- specialty foods may be a one-time purchase for consumers
- requires more consumer education, sampling/tasking, and marketing to explain the product
- people are not as familiar with Indian fry bread as with some other specialty foods
- Limited shelf space in supermarkets make it difficult to place a product
- Specialty products need a selection of choices, and not just one product, to be attractive to supermarkets
- Expensive start-up for packaging, marketing (floor displays, sell sheets, and other marketing collateral), distribution costs, advertising
- Competition from other ethnic and specialty foods as well as competition from other fry bread mix manufacturers
- Expense to attend trade shows – the Efficient Collaborative retail Marketing convention; also much terminology to learn
- Additional 10 to 15% cost for food broker's commission
- Often requires travel and expense for direct selling and store visits.
- May be confusing for customers and for stores as to where to place the item

<u>Advantages:</u>

- Minority-certified businesses selling specialty foods (or any foods) are not required to pay a shelf/store slotting fee for placement
- May entice customers to buy and try a new product
- Represents an innovative product to many marketplaces
- Is a growing segment of food purchases
- Compete in a specialty food segment with fewer products/competitors than many other grocery products
- Initial long list of interested buyers

- Demand for direct line extensions
- Other minority-certified business advantages
- May benefit from free advertising and initial publicity to build demand

2. Is their current strategy the best way to build Lakota Hills?

Given the staff of two, Laura and her son Michael, and the intensive travel, set-up, sampling, and direct selling required it is not the best strategy. Also the supermarket shopper may buy the product only once a month or less. Adding the product to an existing food chain (like a fry bread pizza at Pizza Hut or a fry bread taco at Taco Bell) would move Laura away from the specialty packaging. She could sell to restaurants in bulk packaging. The food chain would also be responsible for marketing the product, relieving Laura and Michael for the travel and difficulty experiences in the grocery retail channel. Students may also mention selling to food establishments (though this product may be too much of a specialty product for institutions) or via QVC or warehouse stores.

3. How might they integrate other channels into their overall selling model?

It is possible to explore these various channels mentioned in number 2 above, plus tourist specialty stores and on-line selling as a test market to see which avenues are best. However, Laura requires additional employees with experience working with these various marketing channels. The learning curve is steep and somewhat long in moving into these channels. This time line can be shortened with additional help.

4. How will Lakota Hills make money?

Lakota Hills will make money with volume. They most promote this specialty product while working to add new items. Revenue projections are positive and growing through 2007 and 2008 but this depends on market acceptance, growth in retail outlets carrying the fry bread, and consumer acceptance. With competition for other specialty foods and limited shelf space, the retail grocery store placement may not yield this projected success. Laura and Michael and their newly hired team must consider the profitability and tradeoffs of the various channels and carefully project their cash flow as they arrive at one or two best options for selling the fry bread.

5. As an angel investor, would you participate in the round this venture is seeking?

No, given the difficulty of breaking into the retail grocery stores, the difficulty of navigating the complex process of food brokers and buyers, and the limited commercial success the fry bread will have in markets outside the Midwest. Changing food preferences, dieting and concern for reducing carbohydrates, and the limited number of families with time to prepare this fry bread product also are challenging. While Laura has a great idea and product, she needs help bringing it to the best location and channel for profitability. The team should be expanded and more research conducted into additional channels before investing.

Yes, Laura is a seasoned entrepreneur who knows her product and has done her homework. It takes time and money to break into the market with a specialty product like her fry bread and the additional infusion of capital can cover the marketing, promotion, and additional staff to call on the various retail supermarkets in the U.S. Additional funds are needed for sales representatives and territory managers. This should free Laura to develop the other ideas and to extend the specialty product line. With a growing emphasis on new specialty foods, the time is right for another culture's food to take center stage.

Today Italian, Mexican, and Chinese foods are so pervasive, they seem American in origin. Now could be the time for Indian fry bread from a unique native-American entrepreneur.

Class Discussion Guidelines

Opener and Votes - To stimulate the class discussion, poll the class (by a show of hands) as to how many students would invest in the business as an angel investor. (This is preparation question 5). You could ask students to e-mail their responses or log-on to a discussion board to have this information before class.

Typically less than half the class will vote to invest. Follow this question by polling students about the appeal of the fry bread. Is it a product they would like to try? Would they try it more than once? If not, how could this be a problem as Laura branches out into additional grocery stores?

A good opening question is: *Who is Laura Ryan?*

This discussion enables students to explore how it is that she finds an opportunity, and may challenge many of the stereotypes they hold about whom the entrepreneurs are and what it takes. Probing for descriptions, underlying assumptions, and insights about her goals, values, motivations and the various pressures and forces that contributed to her decision to create a business can be powerful here. Follow-up probes can include: What is she like? What does she like and not like? Why? Speculate for a moment: What would it be like to work for her; with her? What will to be her strengths and shortcomings? What was so entrepreneurial about her, and why was this?

An excellent discussion on this opener can come from asking students to reflect on the entrepreneurs they have known and know of, and consider the following: Who can, or cannot, be an entrepreneur? Be prepared for a lively discussion, which can be ended by saying this is a common thread that runs throughout the course, and is one of the most important issues for them to think about personally. It will be revisited in many of the cases and with outside entrepreneurs who speak to the class. Urge each student to shape their own views, definitions and boundaries for these core questions.

Next cover the preparation questions. Question one about the challenges and advantages of developing a specialty food business is also a good question to stimulate initial class discussion. You might even go around the room and ask students to first give a challenge followed by a second round of questions asking each student to give an advantage of developing a specialty food business. Ask students to brainstorm as many issues as possible and divide the board into two sections and record the answers.

Ask students to define their current strategy (of marketing the specialty food product through food brokers and buyers to grocery stores). Poll students if this is the best way to build Lakota Hills or would another method be better. Students will likely point to the difficulties of selling the fry bread without product sampling and may also point to the fact this is often a one-time purchase. The lack of ease of preparation and clean-up may emerge as an issue with the product itself. As for the marketing through buyers and brokers, it is a difficult task to break into the retail food industry and Laura and Michael admit they have much to learn. Students may point to her past product success with QVC and may even recommend selling the product at wholesale clubs like Sam's Club, Costco, and BJ's where there are more opportunities for customers to sample the product and buy more at one time. Ask students how the freshness dating and shelf life are hindering the grocery sales strategy.

Continue by asking students how to integrate other channels into their overall selling model. Call on one student for their ideas. Clear the board and record these ideas and leave space under the idea to discuss the strengths and weaknesses of the various distribution channels suggested which could include (sales through brokers, through grocery buyers, on QVC, in wholesale stores, in gift and specialty shops, etc.).

Next discuss preparation question 4 as to how Lakota Hills will make money? Give the students a few minutes to consider Exhibit 3 as to the various channel costs and pricing snapshots. Students may be surprised at the markup at various locations including supermarkets, specialty food stores, tourist destination shops, and wholesale bulk. Students will note that as volume increases (wholesale bulk) their price decreases. The lower volume tourist destination shops garner the higher prices but these businesses are subject to seasonal variations and are extremely sensitive to default in a depressed economy. Next direct students to Exhibit 4A's income statement and projections.

Additional Discussion Questions

1. Are their projections realistic?

Probably not given the difficulty of breaking into the retail grocery store market and the recent practice of having to offer two-for-one specials to move out older product with a rapidly approaching expiration date. The limited product line with only one current product and the remaining questions of which distribution channels are best and why still must be answered. It seems to be a large task for Laura and Michael.

2. What has Michael learned from his encountered traveling to each store to promote the product and set up displays? How will operating expenses increase if he continues this practice?

Michael has realized he has much to learn about the grocery and food industry. Even with his business degree and working toward his MBA he had not learned about the retail practices. Even when well designed products, packaging, and promotional materials are delivered to the grocery stores, it seldom all makes it to the selling isles and often it is shelved in the wrong place by careless stockers. Direct visits, sampling, and meeting with store managers seem to be necessary for each outlet. As they continue to grow, Michael will be unable to visit all stores outside the Midwest region. As they continue to add staff and travel, expenses will continue to increase. They will increase too as new specialty products are added.

3. What new staff and employees need to be hired by Lakota Hills?

First is additional sales staff to cover the expansion regions and meet with store managers as discussed in Question 2 above. Additional employees with skills and past experience with specialty food products and navigating additional channels and with logistics experience would help the team excel.

4. Discuss the fry bread competition and their likely reaction to Lakota Hills' expansion, if any.

Lakota Hills seems to have competitive advantages over Wooden Knife Fry Bread Mix, Crow Fry Bread Mix, and the Oklahoma Fry Bread Company. The competitors seem to have stale package designs and non-aggressive marketing. Wooden Knife Fry Bread seems to be the dominant competitor particularly in the Midwest region and in supermarkets and tourist outlets. Lakota Hills believes they have superior tastes to Wooden Knife Fry Bread Mix which is more bitter and has not been adapted to non Native-

American tastes. Their price are similar and Wooden Knife Fry Bread Mix competes in food services with frozen and bulk products.

5. Online sales are projected to increase. Should Laura consider this as a more viable channel to explore? How can she drive customers to the website?

Yes, particularly given her initial success on QVC. Pairing this exposure with an on-line site can help the business grow inexpensively. Also noting the website on all product packaging can help her in her drive to promote new products she plans to add.

6. Would recent health trends away from breads and carbohydrates hurt product sales?

Diet fads come and go and for specialty products, she is less susceptible to fads. However she could adapt her grandmother's recipe for low-fat menu options. These could easily be added to the website or included on the packaging or inside the packaging.

7. How important are the muslin bags for packaging? Could costs and labor reduced in another format? Should the size be reduced to save costs?

This is an added expense and may be more important for tourist gift shops than for supermarket shelves. Cost-conscious consumers don't want to pay for extra packaging. If the bag is not reusable, she should consider a bright, decorative box to save costs. Reducing the price however, may change the perception of the product as a good value. Research may be needed to compare consumer perceptions of several price point combinations and package sizes. The strategy is to get consumers to try the product so she should maintain the size. Single serve or smaller packaging may be an attractive add-on in the future as could larger sizes. Focus groups and customer surveys can help her determine the best size and mix of packaging.

8. Should they only consider specialty food outlets? Tourist destination shops?

No, but these are important first-steps to test the market for additional product. They also don't charge slotting fees, attract a higher price, and help to grow the brand and the product category.

9. What could be the advantages of a wholesale national program with restaurant chains or food service who order in large truckloads?

With a large volume purchaser, Lakota Hills could concentrate on the product which is their expertise and rely less on the challenges of marketing and distribution through various retail channels. Restaurant chains could promote the product too and stimulate demand for their retail packages of fry bread. Even though the volume purchasers buy at cheaper costs (and lower profit for Laura) this contributes to the gross margin of their venture and could provide the needed capital to expand as they want.

10 Compare the advantages of a force-out marketing strategy in grocery stores versus having to personally introduce the buyer-approved fry bread to each store manager in a chain?

The force-out strategy offers a captive audience from the beginning without having to sell the product to a store manager, however with the challenges with stocking the product, placing it in the correct location, and managing the displays and marketing, the implementation of the strategies are not much different for Michael who is handling this part of the business.

11. How can the shelf life and the buy one, get one free campaign hurt?

The freshness dating is important for consumers. They may be reluctant to buy a new, untried product if the shelf life is limited. Pushing more on-sale inventory onto the retailers adds a glut of product that may not be sold in time to be at its optimum freshness. Old, stale products may lead to unhappy consumers who won't rebuy the product and may engage in negative word of mouth to their friends and family which will harm growth and acceptance of the fry bread mix.

12. Is it harder or easier for minorities including Native Americans to break into business? Why?

Initial advantages of no slotting fees and other grant and loan programs targeted to minorities and protected groups may provide an initial advantage but as Chapter Two clearly states, entrepreneurs must acquire the knowledge and apprenticeship they need through various ventures and education plus a personality to manage risks.

Applicable Teaching Tips

Remind students of the entrepreneurial drive of Laura and how she creatively used flour and other products supplied to her reservation by the U.S. government to develop the fry bread. Discuss her ingenuity. Have students create a time line for her various entrepreneurial ventures as well as her education. Discuss how both her prior ventures and her education helped her along the way. Why was her Uncle (profiled as unsuccessful but entrepreneurial) such an important role model for Laura? Was he indeed a good role model? Why? Students can also consider the impact of the business on her family and her life.

For an advanced coverage of the income statement and projections, have students compare the sales made from the various product combinations in 2007 through 2010. Students will notice the number of 5-lb. cases muslin drop from 2007. Sales of 25-lb. bags continue to grow. Online sales only grow slightly. Have students discuss the implications of the changing product mix.

If time permits, students may want to research the specialty foods markets, tour a local grocery store and interview a manger to see which products are selling and discuss how products find shelf space. Students can also research the 4H organization and study more about the Lakota people to enhance their understanding of Laura and her unique background. The fry bread is similar to the chalupa shell currently sold at Taco Bell so students may want to try the product if they are unfamiliar with it.