

Jane's Healthy Gourmet: A Case On Sustaining Entrepreneurial Growth (Part “A” Of A Two Part Continuation Case)

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ABSTRACT

Jane Smith had a family history of cancer and heart disease which made her very aware of the benefits of a healthy lifestyle. She discovered that there was no service offering pre-prepared healthy meals at home throughout Southern California. Smith has since decided to fill this market niche. She chose Orange County as the strategic location to serve the Southern California area. She opened headquarters in Irvine in January 1996. Jane's plan is to expand throughout California, promoting good health and great-tasting food. She also offers convenience by eliminating the need for shopping and cooking, while fueling the trend of home meal replacement.

Keywords: Entrepreneurship, Female-owned business, Food industry, Industry Analysis

EXECUTIVE SUMMARY

*F*irm description: Details of the company, the main protagonists and the major conflict or obstacles to be overcome

Company name: Jane's Healthy Gourmet

Location: Irvine, California

Field: Healthy Gourmet Food Delivered to Residences/Workplaces

Established: 1996 Estimated Revenues: \$3 Million in 2006

Main Protagonists: Jane Smith, Founder; Daughter, Betty Smith, President; Husband John Smith, Partner

Major Conflict/Obstacles: How to Sustain Growth With Changing Market Demographics

Goals and objectives of the case

Students will learn the following from this case analysis:

- How successful female entrepreneurs overcome difficulties in securing funding for a business startup
- Gender advantages for females entering particular industries and gender advantages in better understanding customer preferences
- How successful firms adapt to changes in demographics
- Dynamic forces in the health food industry
- External growth strategies for a small business

The case, case questions, and teaching notes have been pre-tested and revised based upon feedback of instructors/students.

So What?

This will be an interesting case for both entrepreneurship students and also practitioners. The protagonist, industry, and geographic market will lead to an informative case/discussion.

BACKGROUND OF THE INDIVIDUAL

When Houston native Jane Smith and her husband, John moved to California in 1994, she found a dearth of tasty, healthy meals-to-go businesses that accommodated her budgetary constraints. A brief search led her to an area in central Irvine where the location appeared convenient enough to serve the Southern California region. Jane then began the arduous task of developing the menu and building a restaurant-caliber kitchen staff. She founded Jane's Healthy Gourmet in June 1995. The company began delivering meals in January 1996.

A real people person, Jane enjoys the one-on-one involvement with her customers and takes pleasure in making their lives healthier. A long family history of cancer and heart disease has made Jane very aware of the benefits of a healthy lifestyle.

Jane has been an active volunteer for the American Cancer Society for over 15 years at the local, state, and national level. Professionally, she spent five years as the Assistant Director of Development and Alumni Activities, as well as the director of Publications for The Kinkaid School in Houston. Jane served as the past president of the Orange County Chapter of the National Association of Women Business Owners, and received their coveted Business Owner of the Year Award. She also served on as the past president the board of the Assessment Treatment Services Center, which provides counseling for families with troubled children in Orange County, as well as a member of the California Restaurant Association, and a variety of other local volunteer groups.

Jane's goal for Jane's Healthy Gourmet (JHG) is to promote good health to those in Southern California who want to enjoy a healthy lifestyle that includes eating nutritious, great-tasting food. Believing that most people want to eat healthier, her vision is to offer them the convenience of fresh meals for the home, leaving them with more time to enjoy themselves and their families, secure in the knowledge that they are on the right track to fitness. Whether using JHG for weight loss, or as a way to maintain a healthy diet, customers agree that they feel great while on the program and that, above all, the food is delicious.

BACKGROUND OF THE INDUSTRY AT THE TIME OF FOUNDING

Industry forecasts at the time of founding: Traditionally, food has either been bought at the grocery store and consumed at home, or served at restaurants and eaten on the premises. Today, however, restaurants are increasingly providing takeout options, and the grocery store is selling more ready-prepared food that is eaten at home, or on the go. The key issue lies in not so much where the food is consumed, but where and how it is prepared.

It was predicted by consultants from the McKinsey Quarterly that by 2005, many Americans will have never cooked a meal from basic ingredients. Most of the \$100 billion annual food sales expected in the decade following 1995 was expected to come from food service, including pre-prepared meals. From 1995 to 2005, there was speculation that it would be a good year for food service operators. There was a growth of food service spending, driven from new demands and a reflection of the rising expectations of consumers. The view of the consumer in 1995 was beginning to change in relevance to convenience, family-friendliness, variety, and health. With the lives of Americans becoming increasingly hectic, convenience foods are now growing in demand, but consumers are less willing to accept the traditional convenience foods which are usually processed and of low-quality. Consumers are demanding high quality, nutritious foods and the food service industry of the future will have to cater to this need by providing freshly prepared food delivered to the customer directly. In addition, consumers are also beginning to become more health-conscious and have come to focus more on managing their nutrition.

Competitors: U.S. Zone Gourmet, Atkins at Home, Food for Life, Seed Live Cuisine, Jenny Direct for the delivery of Jenny Craig. These are all branded, pre-packaged food that is shipped by Federal Express. These services deliver all over America, but are frozen products so they could be adequately preserved and shipped to consumers. In 1995, there were no fresh delivery services that were in the reasonable price range for the average consumer. The few companies in California that did offer this kind of service catered primarily to the rich and usually famous residents, the bulk of which lived in Los Angeles, where most these companies were also based.

Ready-made food service represents a definite growth opportunity in the food industry, wherein a company must develop strategies that address the present opportunities, segments, and customers. These strategies must reflect the relative value of customers, and include order potential over time, price sensitivity, and unique

product requirements. It is also important for players in this industry to add value by responding to customer demands for healthy prepared meals that are convenient. Across food service operating segments, companies may also want to include benefits such as item rotation, and unique recipes to compete effectively.

Industry Breakthroughs: Who wins and who loses in the industry could be significantly affected by seven different industry breakthroughs. All major players should be vigilant in watching for signs of change, and poised to seize opportunities when they occur.

- 1) Shared commissary kitchens. Multiple concepts under the same or different ownership would make takeout and delivery more viable for casual dining and limited fast food chains by lowering costs and providing greater variety. The disadvantage is that food service operators could lose control over proprietary products and processes.
- 2) Using third-party kitchen capacity during off-peak hours. Entrepreneurs, or current operators of business and industry, school, or prison kitchens could use their spare capacity to provide low cost, home-delivered foods.
- 3) Lower prices. By quickly lowering average meal prices, casual dining and broad menu fast food chains could expand volume rapidly and possibly blunt the growth of other segments.
- 4) New vending technology. Broader, higher quality selection in easy-to-use, aesthetically pleasing machines could make vending a growth segment.
- 5) Longer-term, insulated home delivery receptacles with refrigerated, frozen, and heated compartments. These would enable consumers to receive a wide variety of items from supermarkets, restaurants, and fast food operators. While development and installation costs are addressable barriers, longer-term hurdles include municipal regulations and minimum scale issues.
- 6) Improved preservation technology for freshly prepared foods. This would enhance the perceived quality and variety of delivered foods and extend the acceptable time between preparation and delivery for restaurants, fast food, and supermarket operators.
- 7) Widespread availability and acceptance of electronic ordering and delivery. Both consumer acceptance and delivery barriers remain unresolved. Consumer acceptance of non-branded food (that is, the produce most likely to be offered electronically), is uncertain, and the benefits are not significantly greater than fax or phone ordering. Food service operators, however, are likely to increasing ordering their supplies electronically to make sure all available price options are visible online, so as to reduce total distribution costs.

Possible Threats to Industry Profitability: During the winter of 1994 and 1995, floods in California were reported to have a negative effect on the restaurant business in the state. Due to crop damage and the loss of livestock in the floods, there was a large increase in prices among some farm products. Recorded as one of California's heaviest rainstorms, losses in both restaurant sales and the agriculture industry threatened the food market. Price hikes in vegetables and fruits included lettuce, broccoli, cauliflower, avocados and almonds. The California Farm Bureau reported that if rains were to continue, there would be an even further gap in production and higher retail prices.

QUESTIONS FOR STUDENTS

The purpose of the case study is to let you apply the concepts you've learned when you analyze the issues facing a specific company. To analyze a case study, you must closely examine the issues in which the company is confronted. Explain the overall picture of what is happening to the company and then several times more to discover and grasp the specific problems. Once you complete this analysis, you will have a full picture of the way the company is operating and be in a position to evaluate the potential of its strategy in this industry. Thus, you will be able to make recommendations concerning the pattern of the company's future actions.

1. What are the positives and negatives of entering into this industry?
2. Assess industry Threats and Opportunities using Porter's Five Forces Industry Analysis Model. Do you conclude though the Porter Five Forces Analysis that the company is a go or no-go recommendation for market entry?
3. What do you see as the strengths and weaknesses of being a female business owner in this industry?

Jane's Healthy Gourmet (A): A Case On Sustaining Entrepreneurial Growth

(Part A Of A Two Part Continuation Case)

TEACHING NOTES

Case Abstract:

Jane Smith had a family history of cancer and heart disease which made her very aware of the benefits of a healthy lifestyle. She discovered that there was no service offering pre-prepared healthy meals at home throughout Southern California. Smith has since decided to fill this market niche. She chose Orange County as the strategic location to serve the Southern California area. She opened headquarters in Irvine in January 1996.

Jane's plan is to expand throughout California, promoting good health and great-tasting food. She also offers convenience by eliminating the need for shopping and cooking, while fueling the trend of home meal replacement.

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1. Firm description: details of the company, the main protagonists and the major conflict or obstacles to be overcome

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2. Goals and objectives of the case: Case readers will learn the following from this case analysis:
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Answers to Questions:

1. What are the positives and negatives of entering into this industry?

Answer:

Positives:

The growth of the food service spending, driven from new demands and a reflection of the rising expectations of consumers. The preferences of consumers at this time were for products that reflected their need for convenience, family-friendliness, variety, and health. Due to dual income households, convenience foods are now more in demand.

Consumers have also become less willing to accept convenience foods that they find in grocery stores which are traditionally perceived as being low quality and over-processed. Consumers have recently demanded higher quality ready-made meals and the food service industry was in need of companies to cater to this demand. JHG responds to this demand by providing freshly prepared food delivered to the customer directly.

Companies that were already delivering ready-to-eat foods, such as U.S. Zone Gourmet, Atkins at Home, Food for Life, Seed Live Cuisine and Jenny Direct for the delivery of Jenny Craig, were all sending customers frozen products. The strength of Jane's Healthy Gourmet lies in the company's ability to give consumers fresh foods that taste better since they are not frozen.

There have been improvements in preservation technology for freshly prepared foods. This would enhance the perceived quality and variety of delivered foods and extend the acceptable time between preparation and delivery for restaurants, fast food, and supermarket operators.

Another strength is the widespread availability and acceptance of electronic ordering and delivery. Both consumer acceptance and delivery barriers remain unresolved. Consumer acceptance of non-branded food (that is, the produce most likely to be offered electronically), is uncertain, and the benefits are not significantly greater than fax or phone ordering. Food service operators, however, are likely to increasingly order their supplies electronically to make sure that they see all of the available price options and to reduce total distribution costs.

In the longer-term, insulated home delivery receptacles contain refrigerated, frozen, and heated compartments. These would enable consumers to receive a wide variety of items from supermarkets, restaurants, and fast food operators.

Negatives:

Other companies such as U.S. Zone Gourmet, Atkins at Home, Food for Life, Seed Live Cuisine, and Jenny Direct for the delivery of Jenny Craig are all well-known companies that consumers have grown to trust. This makes it much harder to enter into this market. These are all branded, pre-packaged food that was shipped by Federal Express, so they have a low delivery cost as well.

During this time period, floods in California have had a negative impact on the restaurant business in the state. Since there was significant damage to crops and the loss of livestock in the floods, there was a shortened supply of these products available. There was a large increase in prices that threatened the food market, with specific price increases in vegetables and fruits including lettuce, broccoli, cauliflower, avocados and almonds. Starting a business that delivered healthy food made with these fresh products would have high costs to purchase inventory.

- 2. Assess industry Threats and Opportunities using Porter's Five Forces Industry Analysis Model. Do you believe, through the conclusion of a Porter Five Forces Analysis, there is a go or no-go recommendation for market entry for this company?**

Answer:

Porter’s Five Forces:

Five forces analysis observes the five key areas, namely the threat of entry, the power of buyers, the power of suppliers, the threat of substitutes, and competitive rivalry.

The Threat of Entry

In economies of scale, the benefits are associated with bulk purchasing. Since this particular niche uses fresh produce and products, it is impossible to purchase bulk inventory. This makes cost of entry high.

There is also a high cost of entry due to costs for the latest technology, including nutritional analysis software, programs for customers to place orders over the web, and inventory management technology.

Competitors do have the distribution channel of shipping using FedEx and overnight mail in use. But since there is no other company at this time delivering fresh meals to the home by refrigerated trucks, that particular distribution channel is not easily accessible.

There are cost advantages not related to the size of the company which include personal contacts or knowledge that larger companies do not own. There are also effects due to the learning curve. Since other companies, such as Jenny Craig, have been in business for a while, they are experienced and know the industry due to their history of involvement.

There is also the threat that competitors will retaliate. After seeing the distribution of fresh products to consumers, it would be easy for these well-known companies to distribute through this channel as well. They could also drop their prices, making it harder for Jane’s Healthy Gourmet to compete, due to the high costs of their distribution method.

The possibility of government action weakening the competitive position of Jane’s Healthy Gourmet is very low and extremely unlikely.

Differentiation is very important in this industry. A company’s brand has the potential of being copied. This sensitizes the influence of the environment.

The power of buyers

The power of buyers is high since there are a few, large players in a market such as the well-known dietary specialists, Jenny Craig and Atkins at Home.

There are also a large number of undifferentiated, small suppliers such as Food for Life, and Seed Live Cuisine.

The cost of switching between suppliers is also relatively low since there are no cancellation fees from one food supplier to another. However, there is a fee for switching from Jane’s Healthy Gourmet to a frozen meal supplier.

The power of suppliers

The switching costs of suppliers are low, so the power of suppliers is low. Switching from one produce supplier to another is relatively low in cost since apples from one place are very similar to apples from another.

Power can be high in cases where the brand is powerful, such as Sysco. But since there are so many suppliers, the market is quite saturated with food suppliers. For example, in Orange County alone, there is Sysco, Ingardia, and a countless number of small providers that offer low prices to be able to compete with the larger companies.

Also there is a very low possibility of a supplier, such as Sysco integrating forward and starting a business like Jane's Healthy Gourmet. This would be differentiating from their core competency, and diverting from their strategy that has historically been very successful.

The Threat of Substitutes

There is a high risk of substitution. Since any type of food is considered a product-for-product substitution, food from grocery stores, fast food restaurants, sit-down restaurants, take-out food from restaurants and even snacks from a vending machine are considered substitutes.

Where there is generic substitution (competing for the currency in your pocket) e.g. video suppliers compete with travel companies.

Competitive Rivalry

This is most likely to be high where entry is likely; there is the threat of substitute products, and suppliers and buyers in the market attempt to control.

According to Porter's Five Forces, this is a Go!

3. What do you see as the strengths and weaknesses of being a female business owner in this industry?

Strengths:

She had an understanding of food, measurements, and the cooking process. She understands health and the importance of diet and nutrition. Since most of the clientele for weight loss is women, she understood her target market.

The number of women-owned eating-and-drinking-place firms climbed 41.4 percent between 1987 and 1992, according to figures recently released by the U.S. Bureau of the Census. Women now own more than 128,000 eating-and-drinking-place establishments — more than one-third of all such U.S. operations. During the past decade, women have made significant progress in the restaurant/hospitality industry.

Not only have women changed the face of the restaurant/hospitality industry statistically, but they have also changed the atmosphere of the restaurant environment and made it a kinder, gentler workplace. I think women lend sensitivity to the business. Whether it's improving a kitchen's atmosphere, lending a helping hand, mediating a conflict or diffusing a customer's displeasure, women have made an indelible mark on the restaurant/hospitality industry and have emerged as industry leaders.

Women may have proven their abilities and demonstrated their talents in the restaurant/hospitality industry, but they still face unique challenges that can stymie their efforts to pry open even more doors.

Whether they climbed their way up the corporate career ladder, inherited the family-owned operation or cooked up their own business from scratch, these women restaurant professionals insist that there are good opportunities for women in the restaurant/hospitality industry. There is a very bright future for women in this industry, especially since they already dominate the industry in terms of numbers.

Weaknesses:

The most profound challenge facing many working women is the effort to balance work and family. The 1994 Working Women Count! survey by the Department of Labor's Women's Bureau revealed that the number one issue concerning women is the difficulty of balancing work and family — a situation aggravated by the often long hours required in the restaurant/hospitality field.

There are many obstacles facing women in the workplace, where issues of sexism or diversity as external struggles arise. This makes the decision to balance career and family an internal struggle. However, not all working women have the benefit of enlisting the help of family caregivers or the flexibility to take their children to work. This is why some women restaurant and hospitality professionals advise companies that want to profit from preventing top women managers to modify their cultures to better accommodate women with families.

Women who are starting businesses often lack the assets banks require to obtain financing, so they look for alternative sources of financing for their businesses. Twenty percent of women business owners secured a business or commercial loan in 1996, according to "Capital, Credit and Financing," a study conducted by the National Foundation for Women Business Owners in Silver Spring, Maryland. Five percent obtained a personal bank loan. Twenty-one percent of women-owned firms were financed by friends, family and personal savings.

AUTHOR INFORMATION

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