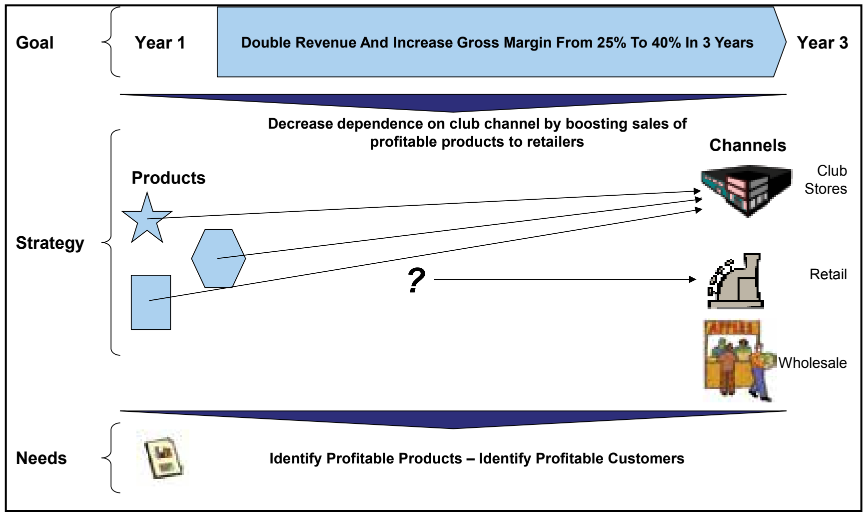
Performance Tracking Tools At Leading Frozen Mexican Food Manufacturer:
Helping New Management Make Fact-Based Decisions

The Challenge: An East Coast rovate equity firm had recently taken a significant equity position in a leading manufacturer of frozen mexican foods and sold them through nationwide grocery chains. The company had been tended through its early years by its energetic founder who had a knack for marketing and a number of home-grown methods for making pricing and product development decisions. With the change in ownership, a new management team had been given a mandate to double sales while increasing gross margins from 25% to 40% within 3 years. This team needed tools to advise them as they developed a growth strategy, and we were brought in to help them gain a solid understanding of which products and customers drove profitability.

The Partnership:



Analysis: Approximatelty one-half of the revenue in previous year had come from 2 particularly large club store chains. The historical strategy had focused on top-line growth at club stores, as demonstrated by a 12% CAGR for the group over the preceding 3 years. The management team foresaw margin pressure with this channel and wanted to decrease dependance on club stores.

The drivers of cost for the business overall were not well understood, and identifying which products or customers were profitable was not possible with the tools currently available. Initial investigation found that the fragmented bits of cost allocation currently performed over or under-burdened individual products by as much as 50% for some significant cost line-items.

Our analysis showed that the top 4 products sold to club customers made up 73% of sales at these stores and over 80% of sales to the top retail customer. By analyzing the cost drivers for these key products, we could construct P&L statements for both the top products and customers.

Strategy: We recommended creating P&L statements for the top 4 products, the top 2 club stores, and the largest retail customer. Once profitability had been analyzed for top products at both retail and club customers, management would have a great deal of insight into the current drivers of profitability. This effort would also yield serviceable models that could be used by client-side members of the team to perform future profitability analyses.

Execution: Our joint team (3 of our professionals, the CFO, corporate controller, plant manager, plant comptroller, and logistics manager) spent a month performing cost allocation analyses to develop a P&L for the first product. Within the next 3 weeks we completed additional P&Ls for the next 3 top products and all 3 top customers using the same models and data sources. Our team codified this process by creating spreadsheet models to accept data and generate the outputs. We also created a short user's guide to explain which company reports supplied the necessary data and where data should be input to the models.

The Results: The tools developed showed that a product previously deemed most profitable, and slated for roll-out to retail customers at a discounted price, was much more expensive to ship than previously thought. By applying the model, it was discovered that a large portion of the freight cost for this product had been subsidized by other products; if this product were to be sold and shipped alone, it was actually loss-generating. A different product, which the model identified as the most profitable, was selected for roll-out.

The buyout firm sold the company to a strategic buyer 3 years later for a compound annual return on investment of 26%.

444 Madison Avenue, 7th Floor • New York, NY 10022 • Tel: 212.497.9200 • Fax: 212.497.9210 • www.gcpny.com