5- 2 Colombo Soft-Serve Frozen Yogurt

In 1994, General Mills Incorporated, a S6 billion consumer goods company, acquired Colombo Froren Yogurt, General Mills Inc. (GM') bclicved they could add Colombo frozen yogurt their existing product lineup to increase net 5alC5 y,'ith little addition mdrketing cost.

Frown yogurt is sold through iwo distinct segments — independent shops and impulse locations such as cafeterias, s, and buffets. Frozen yogurt is the 'Daio business the shops whereas yogurt ig incremental to the impulse locations' main business. GMI's large sales force already served the impulse market.

The financial results in The first couple ofyears were mixed. Earnings increased slightly and then dropped each year even though sales volume relatively nxt, merchandising easts dropped, while prieing promotion rates escalated_ G Ml fot•cc focused on the impulse segments und pricing promotions were believed to be driving volume increases. [lowever, volume in the shop segment declined of alarming rates and there was widespread dissatisfaction in The sates organization. While G Ml knew gilts by segment, they didn't track costs

by segment. Instead costs Were allocated based sales dolla1S The situatic"l was ripe for a clearer look using ABC methods.

TODAY'S FROZEN YOGURT MARKET STRUCTURE:

When Colombo Yogurt Company began murketing son-serve frozen yogurt in early 1980's. their main distribution was through indenendent yogurt shops. the early 90's, they faced competition from liranchise operations such as TCHY Freshens [hatreplaced many of the independent yogurt shopsv And 'lit market changed as Foodservice operators such as cafeterias, Colleges. and bu frets started to add ycjgurt to their business. By the late 90 these Impulse locations accounted for 2/3 or thc soft.scryc market.

In the late BWs, Shop sales began to increase with the addition af distinctive new products such as SinooLhies, boosters, and gran itase The Shops make their living from the soft-serve business and must innovate Or PO out Of business (as lhousands have done in the last decade). On the other hand, the Irapulsc locations living from other items and the soft-serve is only performance topspin, These firms arc unwilling to any risk (new equipment or extra labor) to serve highly differenliatcd products like smoothies or granitas.

THE GM I-COLOMBO MARKETING PLAN:

The GMI Foodservice Division markets brands such as Cheerios, Yopl ait. Betty Crocker€ Gold Medal Flour, Hamburger Helper. Pop-secret. and Chcx Snack to Food Management Firms. Hospitals, and schools. Colombo yogurt was added this product lineup and the Foodservice sales fotce covered both Shop ind Impulse locations,

Salesforce.• Colombo's salesforcc was merged into the Foodservice salesfcree Customers were reassigned to salespeople who already serviced that geographical drca. The salespeople varied in their reaction to the produer. Some found shops easy to sell to while others avoided thc shops despite the possible lost commission. Many spent alotofti'ne helping (heir impulse understand to use the machinery.

Merchandising Promoriares: Colombo traditionally charged the Shops for merchandising (hat •was scale and eye popping (neon signs). The Slmps used these signs to draw eustomers inside. GMI not to charge for merchandis ing and to provide same scale merchandising 10 both Shops ard locations. Shops were very interested in thc kits while many Impulse locations even

Pricing Promuri011N' Pricing promulions are a mainstay of GMl's impulse loeatiön approach. GM l' s sa lesfurce generally used these promotion events as an opponuaity 10 Visit their and take advantage 01 the occasion to meet Scrvicc needs and sell other products that may be featured.

GM' made price promotions available to segments ofthe market, While the deals were typieålly around per case they averaged S3 case againsT shipped during year, OMI marketing knew price was not a major decision factor for Shops and they did not target pricing promotions to them. However, Shops werc aware of the promotions and took advantage of them_

THE BUSINESS STATUS - PRE-ABC:

PROFIT AND LOSS BY SEGMENT - PRE-ABC

Category	Impulse Segment	Yogurt Shops	Total
Sales in cases	1,200,000	300,000	1,500,000
Sales revenue	$23,880,000	$5,970,000	$29,850,000
Less: Price Promotions	- $ 3,600,000	- $ 900,000	- $ 4,500,000
Net Sales	$20,280,000	$5,070,000	$25,350,000
Less: Cast of Goads Sold	- $13,800,000	- $3,450,000	- $17,250,000
Cross Margin	$ 6,480,000	$1,620,000	$ 8,100,000
Less: Merchandising	- $ 1,380,000	- $ 345,000	- $ 1,725,000
Less: SG&A	- $ 948,000	- $ 237,000	- $ 1,185,000
Net income	$ 4,152,000	$1,038,000	$ 5,190,000

ABC ANALYSIS OF COST OF GOODS SOLD:

Cost of Goods Sold is made up of$ 14.25 0.000 for ingredients, packaging, and storagc and S3 for pickipack and shipping. Since the product is the Same across Segments, the COSI ID produce should be the same. However,

$'5 to pick and ship whereas individual orders cost $2.25 per case. There art 75 cases n a pallet und the sepnents differ in their utilization of full pallets as shown below.

	1m ulse ment	Yo n Sho s	
Cases in Pallets		240.000	
Individual cases	140,000	60.000	1.200.000
Tolal cases			

ABC ANALYSIS OF MERCHANDISING:

Merchandising costs consist mainly Of kits osting $500 each. A review of where the kits were Sent indicated that 3,430 kits were sent out and 90 ofthem were sent to shops.

ABC ANALYSIS OF SELLING, GENERAL AND ADMINISTRATIVE:

Since sales representatives service several products, their costs are allocated to the various products based nn gross sales dollars, GMI gave diaries to 10% oflhe sales force in randomly selected markets otthe coumry and asked them to track their time in activity classifications for 60 The diaries indicated that sales reps spent almost 3 times as much time on the yogurt than GM' had estimated. The total allocation 10 Yogurt jumped from $1,w $3,900,000. Oftheirtime spent on Yogurt, only ofthe time was spent on the shops,