



GOLD Meals: Food For (Logistics) Thought

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Summary

GOLD Meals is a small company that sells frozen ready-to-eat meals in four different US states. Being a small, private company, GOLD lacks the processes and expertise to run an efficient and effective operation. Your task is to identify and quantify the short-term savings potential that comes with better (optimal) inventory decision making. Moreover, you are asked to offer strategic guidance for future growth.

Learning Objectives

By completing this case analysis, students will

- assess (and quantify) logistics performance;
- identify (and quantify) opportunities for improvement (based on optimal inventory control methods);
- outline sustainable growth strategies; and
- clearly and concisely communicate their findings and recommendations.

Frozen meals are hot!

Frozen food is big business in the US: In 2023, sales of frozen foods topped \$64 billion¹ up from \$57 billion in 2018.² While comfort foods like pizza and ice cream continue to dominate the segment, there is a surge in demand for healthier fare. Busy millennials, in particular, increasingly look for convenient, wholesome meals made of quality ingredients. As such, it is not surprising that an ever-growing number of companies try to capture a slice of this rapidly growing and lucrative market segment: Amy's, Ethnic Gourmet, Luvo, and Evol are just some of the brands that can be found in your favorite retailer's frozen foods aisles.

Enter GOLD Meals. Started by Joanna and Keith Cunningham, a young married couple from Colorado, the brand's premise is simple: tasty food free of any artificial ingredients, common allergens, preservatives, and items that are often frowned-upon (such as meat or processed carbohydrates). Think "cauliflower steak with potato-pumpkin mash" or "roasted zucchini flowers with spaghetti squash." What may sound unappetizing to some, found a quick following: With the encouragement of friends and family, the Cunninghams started preparing a limited selection of fresh meals and delivered them to local customers once a week. After just three months in business, Joanna and Keith cooked and sold no less than 300 meals per week. It was time to "go big or go home."

The Cunninghams went big. GOLD Meals, as their company is now called, went from fresh to frozen meals,³ offers 24 different stock-keeping units (SKUs) in two different product lines ("Healthy Alternatives" and "Crossover Fusion"); outsourced production to four different

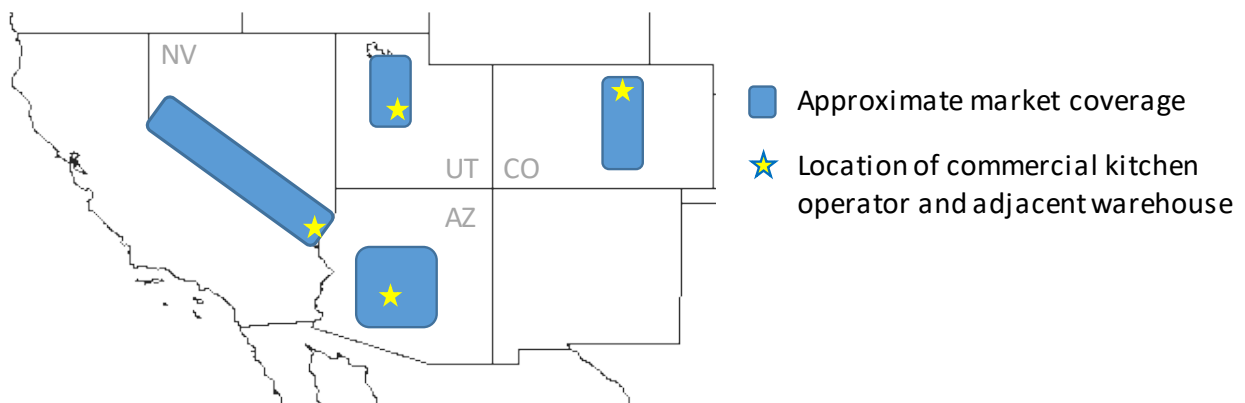
¹ <https://www.verifiedmarketresearch.com/product/us-frozen-food-market/>

² <https://www.foodnavigator-usa.com/Article/2019/02/25/Frozen-food-is-staging-a-comeback-says-report-but-many-consumers-still-query-its-healthy-credentials>

³ The meals' shelf life is greater 12 months (so, for all intents and purposes, unlimited).

commercial kitchen operators (CKO) in Colorado, Utah, Nevada and Arizona; and sells an average of over 100,000 meals each month via store-based retailers across these four states (see Figure 1). But the Cunninghams won't stop there. Their goal is to soon sell throughout the entire United States. The future for GOLD Meals is, well, golden as the company has built a loyal following in this hot market segment.

Figure 1 Approximate current market coverage and location of kitchens/warehouses



GOLD Meals' operations – a look behind the curtain

Neither Joanna nor Keith had much experience in or knowledge of what it takes to run a successful business prior to starting GOLD Meals. And they have been reluctant to hire more staff—after all, each new hire represents a major expense and a significant commitment. For now, GOLD Meals' organizational structure is very simple. Joanna is the President of the company, while Keith is its Chief Executive Officer. Both also share the title of Chief Culinary Officer. The position of Marketing Manager is filled by Rudy Langham, and Daniela Morejon is the Operations Manager. The Director of Finance and Accounting, Cynthia Sewell, rounds out the GOLD Meals team.

How can you run a company with just five people? Almost everything is outsourced. GOLD Meals' primary tasks are to develop new recipes and coordinate with commercial kitchen operators (producers), warehouse companies, and transportation carriers to ensure that its retail customers get what they need.

The CKOs are independent food processing companies that produce both fresh and frozen meals for any number of clients, including corporate cafeterias, local eateries, and brands such as GOLD. Customers typically book CKOs for capacity bands (with guaranteed minimum transaction volumes and maximum quantities based on the CKOs' capacity limitations), although GOLD's CKO partners are very flexible and accommodating of GOLD's needs and demands. When CKOs receive an order, they generate an ingredient list based on the quantity and particular recipes ordered. In GOLD's case, the CKOs procure these ingredients from regional co-op distributors, and the items are typically received within 2 days following GOLD's order. Upon receipt, the CKOs process the ingredients and prepare the meals, flash-freeze them, and package them for transport (typically within about 2 days). Contract carriers pick up each batch from the CKOs and transport them to a refrigerated warehouse where product can be stored or, in GOLD Meals' case, immediately forwarded for delivery to retail customers by the next day.

Daniela Morejon's primary responsibility is to decide when to place orders with the CKOs and how much to order. She proudly proclaims: "we run a zero-inventory operation." Daniela continues: "Every time we get an order from a retail customer for at least 100 units of a particular SKU, we place an order with the CKO in that state. And if the order is for less than 100 units, we hold off until we receive more orders to be fulfilled by the same CKO. This means that our customers sometimes have to wait a bit longer to receive their order. They're already grumbling about the five-day lead time since this is such a fast-moving category and neither

retailers nor shoppers like empty shelves, but...” Daniela goes on to reiterate how their focus on zero inventory has allowed them to be profitable. “After all,” she says, “with a unit cost of around \$5.50, the total holding cost per unit per year in a refrigerated warehouse is about \$2.48—as a small company, we cannot afford that.”

Your pitch to GOLD Meals

Despite Daniela’s confidence, it is clear that there is ample opportunity for GOLD Meals to manage its logistics operations more efficiently and effectively moving forward. After weeks of pleading for help, Joanna and Keith have agreed to consider hiring consultants to help set GOLD Meals on the path to success. GOLD Meals has invited you to pitch a proposal. Why should GOLD hire you? And is doing so worthwhile? To effectively make your case, you need to answer the following questions (based on the data provided for SKU HA3 and the month of August):

1. What is the current total logistics cost (the sum of order placement and inventory holding costs) for SKU HA3 (per month, across all markets, based on data from the month of August)?
2. Assuming that SKU HA3 is representative of the 23 other SKUs and that the month of August is similar to all other months, what is GOLD Meals’ total annual logistics cost?
3. You quickly recognize that total logistics costs could be lowered significantly. As you develop an alternative to GOLD Meals’ current ordering practices, please consider the following simplifying assumptions:
 - demand and/or lead time uncertainty are not a concern; likewise, there are no expected changes in demand for the foreseeable future;
 - while demand is technically discrete (i.e., retailer demand is positive on some days and

0 on others), implement your calculations as though demand were continuous (i.e., the rate of retailer demand is constant over time);

- unit costs, order processing costs and (fixed) shipping costs do not vary with the order quantity.

Given the above, what is your recommendation? Specifically, what should be GOLD Meals' ordering policy from its CKOs in AZ, CO, NV, and UT, respectively?

4. Quantify how much money your plan (see Q.3) would save GOLD Meals, in terms of total logistics costs, across all products and over the course of the year.
5. In the current system, the average lead time between retailers' order placement and order receipt is five days. According to your proposed solution (see Q.3), what would be the new (typical) order fulfillment lead time? (Hint: this question is much simpler than it may seem)

The path to future growth

Answering the questions listed above is critical as this specifies the savings (or performance gains) you can generate for GOLD Meals in the short term and, therefore, serves to make a case for hiring you as consultants. Beyond this, GOLD Meals needs guidance as it plans its future growth. Thus far, GOLD Meals has employed what a multi-regional growth strategy. That is, each expansion phase involved setting up new collaborations with a regional CKO (in CO, AZ, NV, and UT, respectively), a regional warehousing partner, and carriers for deliveries to and from these warehouses. As GOLD Meals' goal is to serve and sell throughout the entire United States, is this multi-regional approach to production and distribution scalable? Or should GOLD Meals re-think its strategy? Specifically,

- What kind of production and distribution system do you recommend for GOLD Meals moving forward?
 - Should production be outsourced or insourced?
 - Should sourcing and production be centralized or decentralized?
- How should GOLD Meals plan its future growth?
 - Should GOLD Meals expand “one state at a time” as it has in the past?
 - Is it preferable to establish a presence in every state as quickly as possible or to increase coverage in the states it already serves (or will serve)?
 - Should GOLD Meals focus on particular areas/markets?

Your goal is to outline a clear and compelling growth strategy that sets GOLD Meals on the path to sustained financial success.

Note: The aforementioned questions are meant to guide you as you devise a strategy for GOLD Meals. Rather than answering these questions sequentially, please be sure to develop a recommendation that is coherent and compelling. Please be sure to explain why you believe your proposed growth strategy is superior to alternatives (however, you do not need to provide hard quantitative evidence).

Your task

Your task consists of two parts (deliverables).

1. Please answer questions 1-5 based on the data provided in the **Excel** file. Please submit this Excel file with your numerical answers provided in the “Answers” template. Please be sure to show your underlying calculations on the “Aug_Orders_SKU_HA3” worksheet.

2. Please prepare a **PowerPoint** presentation that supports your pitch to GOLD Meals.

This presentation must include:

- a) a burning platform, i.e., a compelling opening that conveys—on the first slide!—that there is a need to act, that you have a solution, and that hiring you will lead to a positive (\$) outcome for GOLD Meals (hint: some of your work on Q.1-5 will come in handy here.)
- b) a summary of your operational recommendations (hint: again, some of your work on Q.1-5 will come in handy here. But don't get lost in numerical detail. Focus on the high-level message.)
- c) an outline of your recommended growth strategy for GOLD Meals (this part is separate from parts a] and b] above). How do you recommend GOLD Meals plan for its nationwide expansion? Should it continue its “multi-regional” approach or plan its production and distribution efforts differently? If not, what kind of production and distribution system do you recommend? What market(s) should be prioritized for expansion? While you do not need to support your recommendation(s) with numerical analyses, you should concisely and clearly communicate why and how you believe your recommended strategy will impact GOLD Meals' (future) costs and revenue streams.

Notes:

- Please refer to the Excel file (provided separately) and base your calculations on the data provided.
- The data provided is given and not negotiable (i.e., all demand, lead time, and cost data is fixed and cannot be changed).
- There is no need to forecast future sales. You can base all your calculations on the data provided.
- Your PowerPoint presentation should include a title slide, a burning platform slide (see a] above), 1-2 slides summarizing your operational recommendations (see part b] above), and 2-3 slides summarizing your recommended growth strategy moving forward. Please note that you will not actually give a presentation in class. As such, it is important that your slides speak for themselves and clearly communicate a meaningful and compelling message.
- Please do not put bullet points or excessive amounts of text on the slide(s). Think of meaningful graphic ways to support the message you want to get across.