

# Azalea seafood gumbo shoppe in 2004: a case analysis

[Business](#), [Industries](#)



**1. What is Azalea's current strategy and how well is it working?**

a. Provide appropriate strategic and financial analysis to support above response to question by including the following.

**i. Strengths**

Azalea Seafood Gumbo Shoppe has a competitive advantage of producing one of the best tasting, high-quality gumbo. The company is based in Mobile, Alabama, where there is a big market for seafoods and seafood-based products. Being near the Gulf Coast, procuring seafood, (their products' main ingredients) is also easier.

Another advantage is that they were among the first to start selling readily prepared seafood gumbo. Their thaw-and-heat-and-it's-ready-to-eat concoction was what separated them from their rivals. The product's appeal was great because although gumbo is one of the food staples in states near the Gulf Coast, it is hard and tedious to prepare.

Azalea is one of few gumbo producers, so the competition, relatively, is not stiff. And although there is indirect competition provided by other supermarket products, Azalea has proven that their product sells. In addition to that, chain buyers are comfortable with their pricing.

**ii. Weaknesses**

Perhaps Azalea's greatest weakness is the relatively small size of their company. This factor contributes to their difficulties in finding reliable food brokers. Their size also makes the agreement they go into less secure, as evinced by the losses they accrued when Jitney Jungle filed for bankruptcy.

and was not able to pay more than \$100, 000 worth of debt. Whenever they take on a supplier agreement, the risk of huge losses are always there.

With regards to production, Azalea uses a “ just in time“ process, which means that the amount they produce is just enough to fill orders from retailers and distributors. Although this keeps the costs low, they are not able keep adequate supplies for walk-in jobbers or buyers. Their quality control, at least in terms of their products' packaging, also leaves much to be desired. A labeling mistake made by one employee cost them more than \$100, 000 in 2000.

### **iii. Opportunities**

Azaleas' opportunities for growth and expansion are limitless. Every retailer and food establishment in the country can potentially sell or make use of their whole line of products. Retailers are pleased with their products' taste and are comfortable with their prices; the only thing that prevents Azalea from landing large accounts is their small-scale production capabilities and company size. If they can accommodate a large-scale distribution agreement, Azalea can potentially become an established brand on a national level.

Sales in the restaurant industry are projected to increase by about 53% by the year 2010. This rapid growth in “ meals eaten away from home” poses a great opportunity for Azalea to expand and increase its distribution to the food-service sector.

**iv. Threats**

One of the biggest threats to the company's growth is its battle for prime shelf space in supermarkets. Profits are significantly affected by product placement, and as such, unfavorable placement means a decrease in sales. Although they have few competitors in the gumbo arena, everything else in the market poses a threat because they can be serve as substitutes to the product. If Azalea's gumbo isn't getting good display spots and consumers can't see them, buyers may just opt to buy other products.

Another kind of threat is the employment of unreliable workers and unsound management practices. One such mistake caused by employee negligence was the recall of more than \$100, 000 worth of gumbo and the subsequent loss of their distribution to the supermarket involved. This mishap could've been prevented if only there was a person in charge of double-checking and ensuring that high levels of quality control standards are always maintained. Read also about Neptune Gourmet Seafood

**v. Financial analysis**

Azalea's economic prospects are good. Notwithstanding the losses they incurred in 2000, they have experienced a modest, but steady infusion of growth in terms of revenue. Their sales are also stable ever since the new owners took over the company.

So far, their current accounts with WalMart and its subsidiaries (as well as other large supermarket chains) make up a huge chunk of their net profits. This, however, can still greatly increase if they can get those companies to grant them a nationwide distribution.

The highest return on their investment depends on their ability to increase profits by about 5 to 10 times. This kind of development would also enable them to acquire large provider contracts from the big-time companies and food distributors. The main issue with regards to this increase in capabilities hinges on the company's willingness to secure and move to a larger facility. This change would require them to borrow capital, but since they company has shown a solid, stable performance since its inception, this would not be a problem.

## **2. Financial ratios (for 2003)**

Return of equity = net profit / equity =  $\$193,625 / \$176,580 = 1.10$

This shows how much profit a company generates with the money invested in it. This is useful in comparing their profitability to that of other companies in the industry.

Return on assets = gross profit / balance sheet total =  $\$439,827 / \$193,625 = 2.27$

This reveals how profitable the company's assets are in terms of generating profits. It shows how many dollars of revenue they can generate for each dollar of assets they have.

Current Ratio = current assets / current liabilities =  $\$89,644 / \$100,627 = 0.89$

This shows the company's ability to pay current, short-term obligations. Since the ratio is near the value of 1, it means that they can pay most of their debts at any given time, although they may require a small loan to pay

all. A lower ratio would mean that a company may have trouble coming up with liquid assets.

Leverage = long-term debt / total net worth (equity) = \$43, 644 / \$176, 580 = 0. 25

This shows how assets are financed by the company. A high leverage ratio means that they have large debts. Since Azalea's leverage ratio is low, they will not have too much problem getting a loans or other forms of financial assistance.

2. What are the 4 most important (prioritize them) key strategic issues facing Azalea, as they look to the future? Discuss them in the following order:

a. Small Company Size: The Most Important Issue

i. Explain its importance, but do not make recommendations or solutions here!

In an industry that places importance on company branding and image, Azalea's corporate image may make them look inadequate and unsophisticated. This may influence the decisions of food brokers and distributors, and greatly factor whether or not they can land big accounts with corporate distributors.

ii. Describe what made you think that this issue was most important

Being located in a small country side building gives the impression that the company only operates on a small-scale—one that isn't up to par with industry standards. In addition to the image, buyers are also looking at the

company's potential for growth and expansion—and as such, their size would limit them.

iii. Provide examples from the case reading to support assessment.

Both Applebee's and Cracker and Barrel initially showed interest in Azalea's products, the latter even went as far as setting up an appointment to work out the contract details. Unfortunately, both were put off by Azalea's facilities so the deals never materialized. The company's slowing growth rate also made the owners rethink of the company's future and prospects.

A larger facility made especially for food processing can also make them USDA certified which will allow them to add new products.

iv. Explain what will happen (and when), if the issue is not addressed.

If Azalea stays in its current state, they could still grow, but that growth will be somehow limited, and possibly, the time will come where they will not grow at all—and this could lead to stagnation. If a competition with a larger business enters the market, the company may be eclipsed, resulting in loss of profits, and worse, bankruptcy.

b. Inadequate Production Abilities and Capabilities: 2nd Most Important Issue

i. Explain its importance, but do not make recommendations or solutions here!

Having good and adequate production abilities and capabilities are competitive advantages that are crucial for a company's growth. This includes ensuring that strict quality control measures are being implemented

and that supplies are never lacking. The company's production potential is one of the greatest factors that corporate buyers are looking for.

ii. Describe what made you think that this issue was most important

While Azalea is growing at a stable rate, the owners themselves admit that they might not be able to handle large orders. I believe that they have what it takes to take on a nationwide distribution, as well as manage the addition of new product lines. However, this can only be achieved if they have bigger and a more solid foundation for their production processes.

With regards to quality control, a seemingly innocuous mistake can put a significant dent on the company's finances. Also, products that do not meet buyer expectations of quality would only hurt the company's name and future prospects.

iii. Provide examples from the case reading to support assessment.

The restaurant industry is expected to grow by more than half within the next five years and as such, this would mean the demand for Azalea's products would increase as well. As such, they need to expand their production capabilities. One of the owners mentioned that should they be given an order for supplying 100 Sam's Clubs, it may be beyond their production capabilities.

Another example: a labeling mistake by one of their employees cost them a huge sum of money and caused their buyer, Publix Supermarket to stop ordering from them.

iv. Explain what will happen (and when), if the issue is not addressed.



While the company can continue to grow from \$1 million - \$1.5 million a year without further investment, there may come a time when they will reach their maximum production capabilities and could grow no more. This is potentially problematic when demands for their products grow beyond their expectations and they are not able to accommodate them. When this happens, potential buyers may be disappointed and will have less faith in the company, resulting to less sales.

c. Unfavorable Product Placement: 3rd Most Important Issue

i. Explain its importance, but do not make recommendations or solutions here!

Product placement in stores have a huge bearing on product sales. As such, a good shelf spot will ensure healthy sales. Although Azalea's gumbo have few competitors, a host of other goods in the supermarket can pose as substitutes, therefore it's a imperative that their products are in conspicuous spots.

ii. Describe what made you think that this issue was most important

Although the company sells other seafood-based products, gumbo was by far the best-seller, making up approximately 90 percent of their profits. Since supermarket sales are Azalea's primary source of revenue, product placement is one of the greatest factors that will determine their profits.

iii. Provide examples from the case reading to support assessment.

They have been given good Price-o-Gram spots (product placement) in WalMart chains and Sam's Clubs because their product sells, but premium

shelf space is not always a guarantee with other retailers. Managers can transfer the products without informing Azalea's owners and may place them in unfavorable spots.

iv. Explain what will happen (and when), if the issue is not addressed.

Since supermarket managers sometimes move merchandise around, there is a possibility that Azalea's products will be placed in the far-reaches of the freezer where it cannot easily be seen. Their earning potential will not be maximized and if this goes unchecked, they may end up with a considerable amount of unbought products. And if supermarkets get an impression that their products do not sell, they may not place orders with them in the future.

d. Difficulty Finding Good Brokers for Product Distribution:

4th Most Important Issue

i. Explain its importance, but do not make recommendations or solutions here!

Because of Azalea's relatively small scale production capabilities and their limited product range, they were unable to find good food brokers. Food brokers ensure that their products get good product placements in supermarkets, and with the absence of reliable ones, they cannot always expect that their products are getting prime shelf space. In addition to that, food brokers and distributors help establish grocery and food service accounts.

ii. Describe what made you think that this issue was most important.

Since the restaurant industry is projected to grow by from \$421 to \$577 billion in 2010 (a 37% increase), getting a wider distribution to the food-service sector (and hitching on the industry's growth) would conceivably increase revenue.

Favorable product placement translates to better profits, and brokers ensure that Azalea's products get good spots on supermarket shelves.

iii. Provide examples from the case reading to support assessment.

A good broker got Azalea a good Plan-o-Gram at Winn-Dixie's. Azalea also hired a full-time sales person in the Mississippi area and that person helps develop new accounts and checks product placements in surrounding supermarkets.

iv. Explain what will happen (and when), if the issue is not addressed.

If the issue is not addressed, the company will lose out on a lot of opportunities, possibly those that can greatly contribute to the growth of their revenue. The product placement issue would also not be addressed as a result of this, and as such, Azalea will be on the losing end.

3. What strategic recommendations (prioritize them just as above), for the four issues described above, would you make to Azalea? Marry these recommendations to the issues above in the same order as follows:

a. Recommendation 1:

The Most Important Recommendation for the Issue of its Small Company Size

i. Describe what they should do and how they should implement it.

f the company aims for more growth, the way to achieve this is to move to a bigger building and expand in terms of size, manpower, and management/sales personell. This would mean moving to a new location in a (possibly) more commercial part of town and putting more people managing the “ new” company on its pay roll.

ii. Discuss possible alternative solutions and which one you’d select.

An alternative would be to put up shop in a commercial district without necessarily expanding their facility. Here, they can sell shrimp and crawfish when gumbo sales are not that good. While this may increase their revenue, I believe that the increase would not be as large as that of the first recommendation so I would pick the former.

iii. Include Pros and Cons of recommendation.

Investing on the company's expansion will greatly increase Azalea's potential to reach bigger revenuegoalsand allow them to be an acquisition candidate for major food companies and distributors. One possible con is since a huge amount of money is involved, the return of investment may take a while.

iv. Discuss short term and long-term effects.

In the short term, the move and restructuring will disrupt their operations, but production can be stabilized and expenses recouped once they land more corporate contracts. National distribution can now be possible, and they can be established as a big brand.

v. How the solution will be funded.

Azalea's expansion can be funded by banks, and since they have a good track record, this won't be a problem. They could also sell some of their assets to get additional funds. Finally, the owners can invest their personal funds in this endeavor, but they must do so with after a thorough consideration of the risks involved.

vi. Compare how this recommended change/solution compares to how they are doing are doingppen if they don't implement the change.

Although Azalea has already established accounts with major regional distributors, they still cannot get nationwide distribution because of their size. Major food corporations also have reservations about going into a relationship with them because of the perceived "smallness". If they stay in that current direction, they could still experience growth but it will be limited.

b. Recommendation 2:

The Most Important Recommendation for the Issue of its Inadequate Production Abilities and Capabilities

i. Describe what they should do and how they should implement it.

Azalea should cut back from doing catering services and focus instead on improving production capabilities. Gumbo sales in supermarkets account for about 90 percent of their total revenue, and distribution to restaurants, which accounts for 10 percent, is expected to grow in the next couple of years. As such, they should get a bigger production facility. They should also hire quality control inspectors and implement strict quality standards.

ii. Discuss possible alternative solutions and which one you'd select.

Adding to their product selection can also boost their revenue. If they move to a bigger facility, they could get USDA certification and add products that they can sell at a lower price point, translating to bigger, better profits. They could apply this low-cost provider strategy to their advantage by selling items with a lower selling point than their existing products.

If they are not able to acquire a larger facility, they could just stick with their current one and think of ways for improving their production. However, I will choose the first recommendation (i) along with expanding their product range--I believe that investing in a bigger facility will have a better pay-off in the end.

iii. Include Pros and Cons of recommendation.

Moving to a new facility and training for new equipments may slow down production for a while. The additional quality assurance procedures may also lengthen the production process. These, however, are necessary steps for moving up in the business ladder.

iv. Discuss short term and long term effects.

Growth in the first months may be a little slow due to the (possibly) steep learning-curve, but I expect that production will stabilize in the long run. Azalea can then be considered a brand known for its quality, and as such, consumers may actively seek out their products.

v. How the solution will be funded.

Same as the first issue, the facility and product expansion can be funded by banks, liquidation of certain assets, and personal investment. Wages for the quality inspector(s) can be taken out of existing company funds.

vi. Compare how this recommended change/solution compares to how they are doing it now and what will happen if they don't implement the change.

Although the company can meet current product orders, they are still being limited by their current facilities with regards to accommodating huge volumes. Stricter quality guidelines would also prevent another mishap (like the incorrect labeling incident) from happening.

c. Recommendation 3:

The Most Important Recommendation for the Issue of Unfavorable Product Placement

i. Describe what they should do and how they should implement it.

The company can hire people whose purpose are to make sure that Azalea's products take prime shelf spots and that those spots are maintained.. This issue is not mutually exclusive with the other ones—if the company pushes through with their expansion, more food brokers will now be willing to ensure that their products have good product placement.

ii. Discuss possible alternative solutions and which one you'd select.

Azalea can also improve broker/distributor compensation and give other forms of incentives. They could implement this on a product performance basis, meaning, the better the product does in terms of sales, the better will the compensation be for the broker/distributor be. Because of this type of

compensation scheme, the brokers may be more inclined to look after their products. I would recommend a combination of the first and second recommendations, since the latter would not really make use of a large amount of money.

iii. Include Pros and Cons of recommendation.

Hiring more people and giving brokers additional compensation can increase operational expenses, but this can be offset by revenues generated through larger sales.

iv. Discuss short term and long term effects.

If supermarkets see that Azalea's products sell well, they may increase their orders and display the product in even better locations. This translates to better profits in the long run.

v. How the solution will be funded.

Expenses will come from the company's budget but this can be offset by strong product sales.

vi. Compare how this recommended change/solution compares to how they are doing it now and what will happen if they don't implement the change.

Currently, Azalea has no effective way of ensuring that their products have favorable placements for all supermarkets, all the time. If no change is implemented, their profits can be at the mercy of supermarket managers who may or may not give them the optimal shelf spots for consumers buying.



d. Recommendation 4:

The Most Important Recommendation for the Issue of Finding Good Brokers for Product Distribution

i. Describe what they should do and how they should implement it.

In conjunction with the recommendation for Issue #3, they can give extra incentives for good and reliable brokers. But if Azalea would expand the company, they can already set-up their own brokership of their products and consolidate with other broker/distributor associations.

ii. Discuss possible alternative solutions and which one you'd select.

Instead of looking for brokers for acquiring accounts and order agreements from distributors and retailers, they can instead hire their own personell to do the job for them. However, this may be more costly and finding a person with good contacts might be difficult.

iii. Include Pros and Cons of recommendation.

Giving brokers additional compensation can increase operational expenses, but this can be offset by revenues generated through larger sales.

iv. Discuss short term and long term effects.

Expansion of the restaurant industry is expected to continue for the long haul, as such, a good company-broker relationship will be beneficial for Azalea's growth.

v. How the solution will be funded.

The compensation for brokers can come out of the company's existing coffers. Supposing they expand, funds for setting up their brokerage can be included to their loan requirements.

vi. Compare how this recommended change/solution compares to how they are doing it now and what will happen if they don't implement the change.

The restaurant business is projected to grow by more than 50% by 2010. Azalea might miss a lot of opportunities if they are not able to take advantage of this industry boom. As such, other providers may exceed them, which may lead to them being overshadowed and making even lesser revenues than before.

Read also Zara's identification of customer needs can be categorized as which planning and strategic management step