

Truearth case analysis essay



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In today's business market, it is imperative for companies to invest in new product development in order to continuously grow. There are various factors, which come into play when it comes time for a company to make such a decision. In the case of TruEarth Healthy Foods, time has dwindled and they must make a decision whether to release their new refrigerated pizza line or not. Unfortunately, according to statistics launching a new product has an 80% fail rate. In addition, it can be a very expensive process needing special attention from management.

Overall, TruEarth's main concern here is whether or not it would be profitable venture to move forward with the launching of the new pizza product. The factors that need to be considered are the competitive market, consumer preferences based on the market research, manufacturing viability, and the financial viability. The Competitive Market The growing demand for wholegrain products, have cause companies to create products of this nature to appeal to a larger array of consumers. TruEarth's Cucina Fresca fresh pasta product grew rapidly from \$18 million in retail sales in 2006 to \$35 million in 2007.

In order to assess TruEarth's dilemma with its new fresh pizza product we can compare it to the success of fresh pasta. First, lets take a closer look at the pizza market as a whole. Pizzas were a core component of the Italian-American food category, with annual sales in the United States estimated at \$53 billion in 2007. Moreover, surveys suggest that 77% of consumers ate pizza at least once a month. When looking at total sales, 66% came from delivery, take-out, and restaurants while only 11% came from store-bought refrigerated pizza.

When we compare the sales total of \$5.8 billion in refrigerated pizza to that of the \$4.4 billion in refrigerated pasta, it is clear there is a larger market for pizza than for pasta. Despite this seemingly open opportunity, Rigazzi, one of TruEarth's main competitors is close to introducing their own pizza product. The same competitive issue was present during the fresh pasta development. TruEarth benefited from being a successful first mover because if they had not, they would not have been able to establish the market share they have now.

Consumer Preferences The health and fitness industry has grown significantly in the past decade. Due to this growth, society has responded by becoming more health conscious. Pizza is what the health and fitness industry tells the consumer to stay away from, " Pizza has the bad carbs! " We know the American consumer loves pizza, the annual sales were estimated at \$53 billion in 2007. We also know they would prefer not to cut it out, however, 33% of restaurant-goers had a " strong interest" in a whole grain crust. Unfortunately for the American consumer, many local pizzerias do not offer healthy alternatives.

TruEarth can remedy this discrepancy by capturing some of the 47% of takeout customers (Exhibit 6). TruEarth's most favorable pizza attribute is that it is made from healthy ingredients with a rating of 9.1 out of 10, where 10 equals " Agree Strongly" (Exhibit 6). Comparing this to the 7.1 given to takeout pizza and the 5.9 to refrigerated pizza, TruEarth's pizza is favorable by a 2-point margin regarding healthy ingredients. Given all the positives, TruEarth must address the pricing of the pizza product.

In the many surveys conducted, the price being too expensive has been the most significant outlier. According to Exhibit 8, 27% of consumers “dislike” the pizza being too expensive. Moreover, the consumers that were unfavorable to the product, 45% said it was too expensive and 23% said it was more expensive than restaurant or takeout (Exhibit 9). To understand pricing favorability in the refrigerated pizza market we must look at Exhibit 10, between the price ranges of \$6.00 to \$10.00 has been viewed most favorable, so around \$8.00 would be the optimal price.

The pizza kit is already set at a price of \$8.00, the toppings for the pizza is where the issue lies. Table B shows our average spend per purchase to be \$12.38 whereas, the mean price of takeout is \$11.72 (Exhibit 10). In order to adjust the price of pizza we could include toppings as part of the kit. This would lower packaging costs because there would only be a single item being packaged and subsequently easing the decision making process for the consumers. Manufacturing Viability Another factor that must be taken into consideration is the manufacturing packaging equipment needed to accommodate the fresh pizza product.

Coincidentally, the large capital expenditure in packaging equipment is already available due to the fresh pasta line. This makes the incremental investment for pizza substantially less than it was for pasta; however, it still included some re-tooling costs and marketing plan. Another benefit is that employees already know how to operate current machinery. This minimizes the training costs significantly. Furthermore, 22% of respondents claimed the sauce was the key reason for purchase intent (Exhibit 9).

The company can utilize the pasta sauce they are currently making for the pizza as well. In addition, consumers have reported 31% favorability that the pizza is freshly made (Exhibit 8). To ensure freshness of any product, strict manufacturing schedules must be implemented in addition to frequent maintenance of machinery. This is a minor concern among consumers with 12% (Exhibit 8). In retrospect, using the same machinery for two different products could potentially hinder the quality and packaging of those products. Financial Viability

To analyze the potential profitability of TruEarth's new pizza line there are many factors that need to be considered. Looking at Exhibits 3 and 7 we can compare the mean likeability and purchase intents of both pasta and pizza. Pasta's mean likeability is 4.1 compared to pizza's 3.7 and pasta's purchase intent is 76% whereas pizza is only 60%. Despite the concern that pizza will not provide enough expected sales our forecasted volume analysis will prove otherwise. First, we must point out that the wholesale volume is 13% less in the pizza market compared to the pasta (\$12 million compared to \$14 million).

Secondly, the market for pizza is \$5.8 billion compared to pasta's \$4.1 billion (41% higher). Clearly the pizza market is larger, therefore, enabling TruEarth to have more potential here than in the smaller pasta market. In addition, the pasta grew quickly from \$18 million (clearing the \$14 million wholesale hurdle) in 2006 to \$35 million in 2007. The pizza product should have no problem flourishing in its market. Based on the analysis of these factors, shown in Tables 1-3, we conclude TruEarth should launch its fresh pizza product.

According to the projected figures in Table 3, we can see that even with a “mediocre” product the wholesale sales volume is \$12, 231 and the wholesale hurdle is \$12, 000 (numbers are in thousands). In addition, the retail sales of a “mediocre” product are \$18, 817 and compare that to an “excellent” product with \$26, 233. It is evident that TruEarth’s fresh pizza product has significant potential, however, to gain the forecasted potential they must move forward with an aggressive launch of the pizza product.