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Good review

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The Chattanooga Ice Cream Division

The mood was somber as the senior management team drifted into the conference room of the Chattanooga Ice Cream Division. Waiting for them on that morning of June 5, 1996, was Charlie Moore, the division's president and general manager. Word had just reached the division that Stay & Shop, Chattanooga Ice Cream's third-largest customer at $6.5 million, had decided to replace Chattanooga with the Sealtest line in all its southeast region supermarkets. Moore had called the group together not only to mourn the blow to the business but to figure out what to do about it. (See **Exhibit 1** for the division's organization chart and **Exhibit 2** for background data on key executives.)

Background

Chattanooga Ice Cream, Inc., was a wholly owned subsidiary of Chattanooga Food Corporation (CFC), a family-controlled enterprise that had been founded in the city of the same name in 1936 by Charlie Moore's grandfather. In 1996, CFC comprised three divisions: Grocery Products, with revenues of $245 million; Specialty Foods, with revenues of $215 million; and Ice Cream, with revenues of $150 million. Chattanooga's Ice Cream Division was one of the largest regional manufacturers of ice cream in the United States. Its primary customers were supermarkets and related food chains. Chattanooga was seen by the trade as being a producer of mid-priced basic ice cream products.

Although CFC as a whole had performed well in recent years, the Ice Cream Division experienced flat sales and declining profitability over the past four years. (See **Exhibit 3** for a performance profile.) During this period, growth in U.S. per capita consumption of ice cream had slowed and competition in Chattanooga's markets had increased substantially. (See **Exhibit 4** for per capita consumption patterns for the United States and by region.) Such major premium brands as Sealtest and Breyers (which Kraft sold to Unilever in 1993), as well as Dreyers and Edys, had become much more formidable and aggressive competitors in the large supermarket chains. So-called super-premium ice creams like Haagen-Dazs (owned by Pillsbury, a division of Grand Metropolitan plc) and Ben & Jerry's had entered the southeast United States only recently, but were already showing signs of penetrating the market successfully, especially in the larger cities and towns of the six-state region served by Chattanooga Ice Cream. (See **Exhibit 5** for share of market trends by product segment.) Related to the recent success of premium and super-premium brands was the growing popularity of "mix-in" ice cream flavors. Mix-in flavors consisted of a base ice cream flavor (such as vanilla, chocolate or coffee) into which chunks of candy bars, cookies, nuts or fruits were added.

Professor Carl Sloane prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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Mix-ins were more difficult and costly to manufacture than were "smooth" flavors. (See **Exhibit 6** for volume share data by flavors.) Last, frozen yogurt, calcium-enriched low-fat yogurt, and sorbet were beginning to displace ice cream as the frozen desserts of choice in the rapidly expanding health-conscious segment of the market. (See **Exhibit 7** for per capita consumption patterns by product type.)

In an attempt to improve its performance, Chattanooga Ice Cream had taken action on a number of fronts, beginning in 1993 with the promotion of Charles Moore to head the division. Not long afterwards, it hired a new vice president of marketing, Barry Walkins, to replace Ben Wedemeyer, a 30-year veteran of Chattanooga Food Corporation, who was pressured to take early retirement. A year later, it introduced its own line of frozen yogurt and brought in Stephanie Krane from Price Waterhouse to upgrade the division's information systems and control function. Finally, in 1995, to reduce costs, the division closed its original manufacturing plant in Chattanooga and consolidated production in its two newer plants, Memphis (Tennessee) and Birmingham (Alabama).

While each of these moves was applauded by CFC, the division had not succeeded in returning to its previous level of profitability or performance in the marketplace. In 1995, for the first time in recent memory, the division was unable to dividend cash up to its parent.

The departure of three of seven members of the top management group within five years had also disrupted a longstanding pattern of relationships. Moore's predecessor as general manager had worked directly for the company founder as far back as 1947 and been the undisputed leader of the division. He knew more about the business than anyone else and had a well-developed network for gathering and communicating information. Confident that he knew what was best in most situations, he rarely felt the need to consult his subordinates and reserved important decisions to himself. With the business doing well, there seemed no reason to question his leadership. Employee turnover was rare, the division maintained a steady position in the marketplace, and the product line had remained pretty much the same since the sixties. When he stepped down at age 72 due to failing health, many employees wondered how the division could possibly operate without him.

Charles Moore could not have been more of a contrast. Moore believed in the value of group-based decisions and liked to bring people together formally to share information, consult on decisions, and forge consensus. This belief had been reinforced by his early experience at National Geographic magazine where writers, photographers, and editors worked in small teams to plan and execute stories for the publication. Working that way produced a great product, he thought.

Unfortunately, Moore found it difficult to implement his management philosophy as general manager of the Ice Ceam Division. In his weekly staff meeting, he found that the department heads were reluctant to opine on any matters outside of their own functional domains. In private, however, they questioned the competence and trustworthiness of one another, were defensive when things went wrong, and almost always laid the blame for errors or problems at the feet of another department. Disdaining such behavior, Moore feigned a deaf ear to it, hoping his subordinates would get the signal and cease complaining about each other. By working together as a group, he expected that they would get to know each other better, discover each other's strengths and develop mutual respect. In the meantime, whenever an issue cut across departmental boundaries, Moore found it necessary and less aggravating to cycle and recycle through the departments until he got a coherent story and the means for reaching a decision.

The Morning Meeting

The management team seemed stunned by the news of Stay & Shop's decision and questioned Charlie Moore at length about the details of the telephone call he had received from Stay & Shop's regional executive 20 minutes earlier. What precisely had he said? Did he give any reasons? Was there any hope of getting them to reconsider?

Moore was not encouraging in his responses to the questions posed by his subordinates. The decision was final he had been told, and no, there would not be any reconsideration for at least two years. In addition, Moore reported that when he inquired as to the reason for the decision, he was told it was no single thing, but that Sealtest's product line, service, discount structure, and promotional allowances had all figured into it.

At this point, the managers began volunteering their own interpretation of what had gone wrong. "I know why we got thrown out," Barry Walkins, the vice president of marketing, volunteered, "and I've known it since the first week I came to work here. Our product line is dull. How can we compete with just five flavors and no mix-ins when our competitors offer a dozen or more?"

Walkins had made this point privately with Billy Fale several times in the past, but Fale reminded him each time that Chattanooga Ice Cream's market strength was as a supplier of good, moderately priced basic flavors. Besides, producing mix-in flavors would require a degree of manufacturing sophistication that was beyond the production organization's current capability. Therefore, Walkins's remark served only to rankle Billy Fale, the vice president of production.

"I don't think it's very helpful to criticize Billy's operation," Charlie Moore interceded in an unsuccessful attempt to forestall an argument.

"You listen to me," Fale interrupted, unaccustomedly waving a finger at Walkins. "If we adopted every idea of yours we would go broke. I've looked at making mix-ins and the costs are too high. We would lose money on every order we shipped; and our inventories would balloon out of sight. I'm having enough trouble as it is keeping inventory levels manageable. We just don't have the information systems required to support a more extensive product line."

Sensing that Fale was trying to place part of the blame for the lost business on the MIS department's failure to deliver a new manufacturing resource planning system on schedule, Stephanie Krane, the division's controller, spoke up. "This is a large complex system and it takes time to develop, test and install it. Actually, we are running ahead of schedule if you take into account the fact that our consultant's project manager left in the middle of the job and had to be replaced with a person who had no idea what we were up to."

"What's your current estimate when the system will be completed?" Charlie Moore asked, trying to calm matters.

"I can't be certain," Krane responded. "We are just beginning to test it operationally. If things go well, we could be on-line in a couple of months. If we find a lot of bugs, then who knows?"

"This is what I've been hearing for 12 months," Fale said. "It's a miracle we've managed as well as we have. The old system is down half the time."

Les Holly, the division's sales manager, visibly frustrated by now, rose from his chair and began pacing one side of the room. "You're all wrong!" he interjected. "If any of you spent more time in the stores, you would know why. Yes, we do a poor job of maintaining inventory. The stores are out of stock and back ordered way too frequently. But that's not the real story. We are losing out because the national brands are paying the supermarket chains big bucks to stock and promote their lines. There's no doubt in my mind--Sealtest bought the space in the freezer chests. They probably paid up front and got a two-year deal. That's why Charlie was told they wouldn't reconsider for at least two years."

Sensing that the dialog was becoming overly heated, Charlie Moore called for a break in the discussions and suggested that they get together after lunch.

The Break

When he returned to his office, Charlie Moore reflected on the morning's events. He was upset with losing Stay & Shop's business, as well as by the way his management team had reacted to the news. He guessed that the loss of Stay & Shop's business would reduce the division's operating profit by as much as 25%. Additionally, he was uncertain how soon the volume could be replaced and whether word of Stay & Shop's switch to Sealtest would unfavorably impact Chattanooga's business with other customers. As for his management team, Moore was both surprised and unhappy with the public display of conflict. He also wondered whether his people possessed the capabilities necessary to lead a recovery of the business.

Walkins was highly creative and had a good intuitive sense of what consumers wanted, Moore thought, but he was not well organized and often lacked follow-through. This latter characteristic frequently brought him into conflict with Billy Fale, a knowledgeable and disciplined executive who, Moore conceded, was a bit rigid in his thinking and anchored in the past. It also created problems for Walkins in his relationship with Kent Donaldson, the division's vice president of research and development and a close friend and fishing buddy of Billy Fale.

In addition to aligning himself with Fale on most issues, Donaldson had never forgiven Walkins for his attempt to lay blame on the research and development department for the disappointing introduction of the division's line of frozen yogurts. In conversation with Moore, Walkins claimed that the line's weak sales stemmed from its poor taste, texture, and formulation. Donaldson, in turn, blamed Walkins for having pressured him into releasing the product before it had been adequately tested.

Les Holly had fewer conflicts with his peers, Moore thought, because he spent the great bulk of his time in the field working with his sales force and visiting key customers. His absences from the home office contributed, however, to communications problems and Holly's tendency to withhold information. Moore wondered, in fact, whether Holly had had any advance inkling that Stay & Shop was unhappy with Chattanooga Ice Cream or was looking at alternative suppliers. Moore had wanted to ask Holly that question earlier, but decided that it was a question better posed off-line where he might get a more honest answer.

From what Moore had been able to observe, Holly's only source of continuing tension was with Stephanie Krane. Krane had begun tightening up on the sales force's expense accounts soon after she arrived at the division. Later, she succeeded in convincing Charlie Moore to replace the sales force's fleet of Ford Tauruses with smaller, less expensive Geo Metros. Holly had complained afterward to Moore that Krane's actions were shortsighted and that they had negatively impacted the sales force's morale precisely when it most needed boosting. Krane held firm to her position on expense containment, however, and had the backing of the parent corporation's chief financial officer to whom she had a collateral, dotted-line reporting relationship.

The Afternoon Meeting

When the group regathered in the conference room following lunch, Charlie Moore began by asking those in attendance to set aside their differences in order to focus on the problem at hand. "What do you think we ought to do?" he asked of the group.

After a few moments' silence, Les Holly responded. "We will try like heck to replace the volume, but I can't promise how long it will take. I have been talking to an eight-store chain in the Florida panhandle about taking on our line, but the distance will make it an expensive account to service. In addition, I doubt that we can get them to make a quick decision without our paying them a substantial promotional allowance up front."

"What do you think?" Moore asked, turning to the others.

"This isn't the time to go spending more money on promotion," Stephanie Krane responded. "I think our immediate goal should be to cut expenses by roughly the same amount as the operating profits we're losing at Stay & Shop. That way we'll be able to stay on the profit plan and deliver the dividend we promised to CFC. All we're talking about is cutting expenses 3%."

"How are we going to do that?" Holly asked, noting that the division had worked hard for the past few years to reduce expenses and was already managing its costs aggressively.

"For one thing," Krane responded, "we could place a freeze on salaries for a year. The rest could come from a variety of sources, such as eliminating cost-of-living increases in retirees' pensions and healthcare insurance. Maybe this is the year to acquaint our retirees with the realities of the business."

Frank O'Brien, the division's personnel vice president, took exception to Krane's suggestion for cutting expenses, noting that the recent consolidation from three to two production facilities had already had a negative impact on work force morale. For several minutes, various other ideas for reducing expenses were raised and discussed, but without reaching a conclusion as to their practicality or advisability.

As the momentum of the discussion flagged, Charlie Moore asked if there were other, different ideas. Barry Walkins spoke up. "I don't think we are going to solve the current problem by cutting expenses. There are times when you have to spend money to make money, and I believe we are in such a period. Les is correct when he suggests growth as the solution, but as you know, I've never been in favor of buying the business. Instead, I think we should invest in expanding the product line two ways. First, we have to add some excitement and compete head on with Ben & Jerry's and the others by adding half a dozen new mix-in flavors. Second, we should start up a five-gallon bulk packaging line so we can begin selling to the scoop shops. We are really losing out by not being able to introduce customers to our product through these outlets."

To the surprise of many of those around the table, Kent Donaldson agreed with Walkins's notion that the solution lay with expansion, not cost reduction; but after agreeing with the strategy, he suggested another set of tactics. "You all know about the new nonfat formulation we've been working on in the laboratory. Well, I was hoping I'd have a little more time to work on it, but I think we have finally found a fat substitute that has acceptable texture with minimal side effects. If I could have an additional $250,000 to fast-track the project, we might be ready to go to market in six months. It could be a big winner for us."

Krane had studied the project and knew that it would take longer than six months to complete, even if fast-tracked, but she did not want to embarrass Donaldson by arguing the point publicly.

Instead she said, "We don't have $250,000 to spare, unless of course Les wants to cut his promotional allowances for the second half of the year."

Having yet to hear from Billy Fale, Moore turned to his production head and asked if he had anything to add to the discussion. Fale responded affirmatively. "I've been trying to run some calculations in my head. Eighty-five percent of our volume comes from vanilla, chocolate, and strawberry, with coffee and chocolate chip accounting for the remaining 15%. If we were to eliminate chocolate chip we could reduce set-up and cleaning times, lengthen our runs, cut down packaging expenses, and maybe lower our production costs and inventories as much as 5%."

At that point, Les Holly was back on his feet pacing the conference room. "If we cut back on the line as you suggest, we'll get tossed out of every chain, not just Stay & Shop. Everyone of our competitors, even the private brand folks, can supply the stores with basic flavors. The only way to get back where we were five years ago is to fight fire with fire and buy our way back in with promotional allowances."

Stephanie Krane began a rejoinder, "Les, we can't afford another penny in trade allowances!" but Charlie Moore interrupted her.

"It seems we've come full circle," Moore remarked. "Unless someone has a fresh idea to present, I suggest we break now. I want to think about the different proposals you've made."

Reflections

When he returned to his office, Charlie Moore reflected on the day's events and wondered whether or not to feel discouraged. The loss of business was a potentially serious blow to the company, and the failure of his key managers to see eye to eye on a recovery plan was upsetting. On the other hand, he'd heard more new ideas today about how to improve the company's operations and fortunes than he'd heard since he took over as general manager four years ago.

Which idea to pursue, however, was another matter altogether. The idea of growing revenues appealed to him because it meant that he could avoid taking onerous personnel actions. Increased market share might also put the division on a stronger competitive footing over the long term. The growth path had a high degree of uncertainty, however, because neither Walkins nor Holly had distinguished himself delivering promised increases in volume and share over the past five years.

Cutting costs was a more certain means of restoring profitability, Moore felt, because the necessary actions were clearer and both Krane and Fale had strong records of delivering on their promises. Although cost cutting would inevitably hurt some employees, it would also benefit others. Fifteen percent of CFC's common shares were owned by an employee stock ownership plan. The price of the shares had barely kept up with inflation in recent years. Moore felt certain that the share price would suffer further if the division's profits were allowed to erode precipitously. For persons retiring in the near term, such a decline could have serious financial consequences.

Fortunately for the division, Stay & Shop was not planning to make the changeover to Sealtest for another 90 days. While this afforded Moore additional time to consider his options, he recognized that the sooner a decision was reached, the sooner its implementation would begin bearing dividends. The only way to move quickly, he felt, would be to pick one idea and go with it. Which idea was best still puzzled him, however. Perhaps, Moore thought, he could afford to continue the dialog with his managers a while longer until they reached consensus on a common plan of action. Without such agreement, he thought any idea would be doomed to fail.

Exhibit 1 Chattanooga Ice Cream Division Table of Organization, 1996

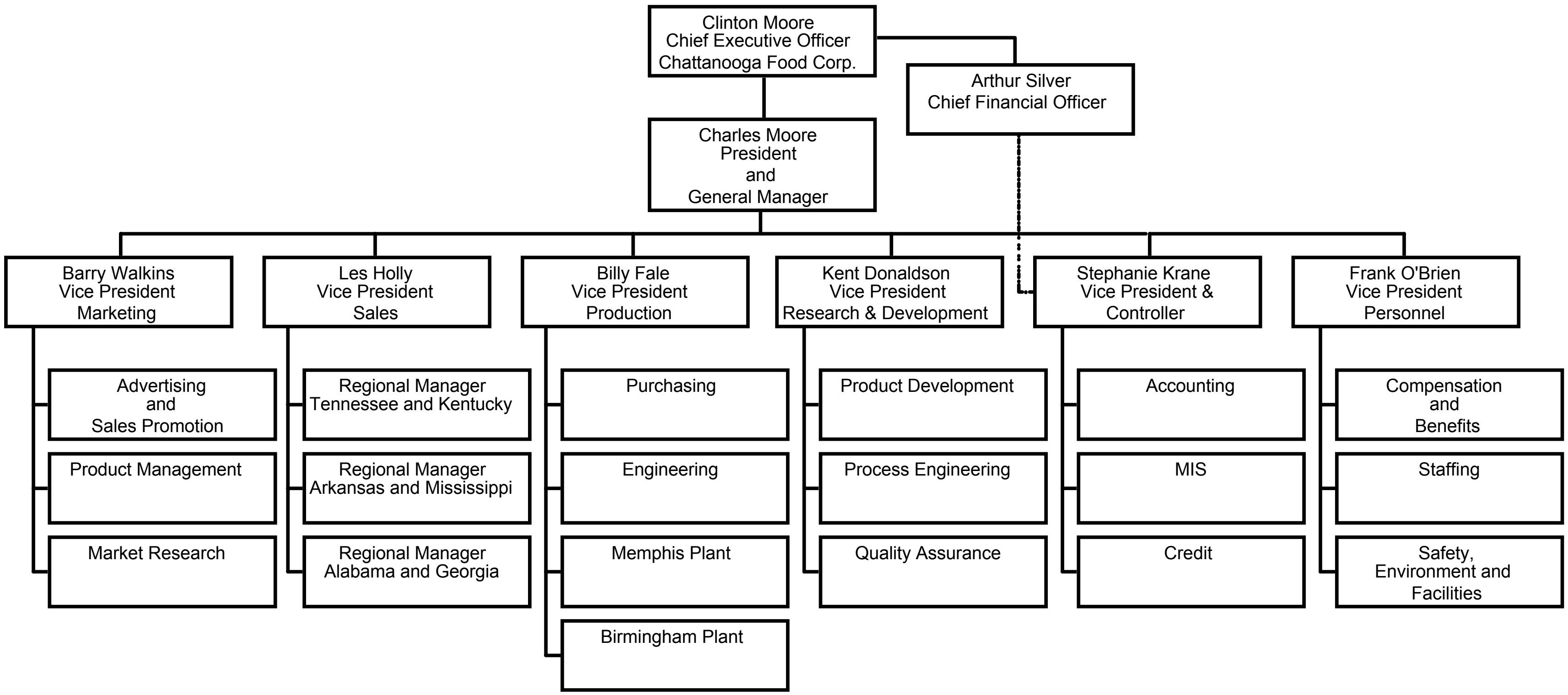


Exhibit 2 Background Data on Key Executives

Charles Moore (36)—President and General Manager Grandson of the founder and son of the present chairman and CEO of the parent company; graduate of William and Mary College; spent five years as a photographer for National Geographic Magazine; ten years with Chattanooga Food Corp.—one in field sales with Specialty Foods, three in finance and control at the corporate level, and two in marketing with the Grocery Products Division—before taking over as general manager of the Ice Cream Division.

Barry Walkins (37)—Vice President, Marketing B.A., Vanderbilt; MBA Harvard Business School; brand management with Procter & Gamble and Land O'Lakes before joining Chattanooga Ice Cream in 1992.

Les Holly (41)—Vice President, Sales B.A., Morehouse College; U.S. Marine Corps; seven years in store operations and merchandising with Publix Super Markets and Eckerd Drugs; district manager and regional manager with Chattanooga Ice Cream, beginning in 1986.

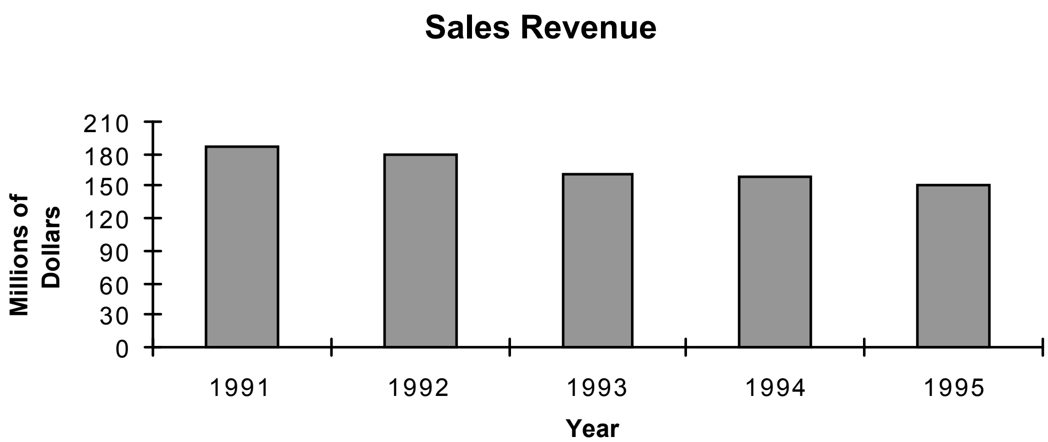
Billy Fale (59)—Vice President, Production 34 years with Chattanooga Food Corp. in various manufacturing and engineering positions.

Kent Donaldson (56)—Vice President, Research & Development B.S., Memphis State; M.S. and Ph.D., University of Missouri; U.S. Army Food Laboratories for 13 years; 17 years with Chattanooga Ice Cream in product development and quality assurance.

Stephanie Krane (35)—Vice President and Controller B.A. and M.B.A., Emory University; 10 years with Price Waterhouse, the last three as manager of the Chattanooga Food Corporation account; joined Chattanooga Ice Cream in 1994.

Frank O'Brien (42)—Vice President, Personnel B.A., Miami University; various industrial relations and human resources positions with Howard Johnson and Bell South prior to joining the division in 1989.

Exhibit 3 Chattanooga Ice Cream Division



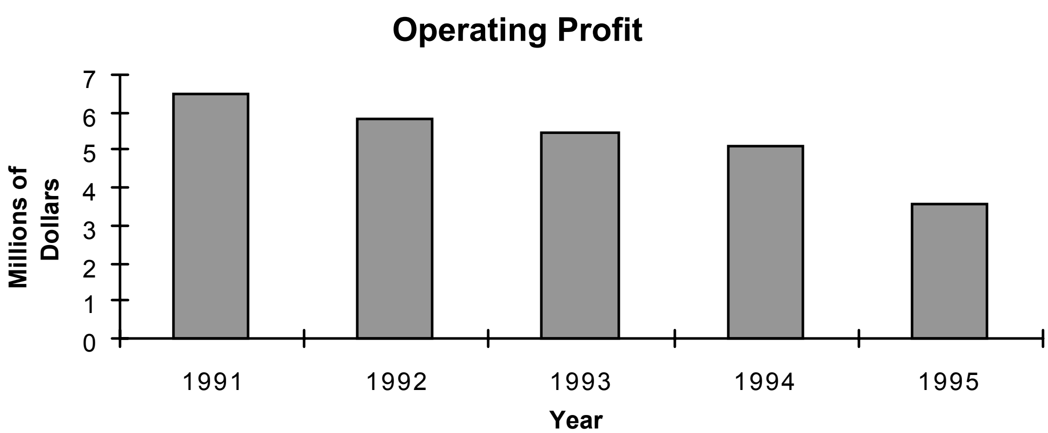


Exhibit 4 U.S. per Capita Consumption of Ice Cream (quarts)

Ice Cream	1991	1992	1993	1994
North Atlantic	15.7	15.1	15.6	15.1
South Atlantic	9.7	9.6	9.4	10.1
East North Central	14.7	15.0	16.0	15.3
West North Central	24.7	24.5	23.4	24.4
South Central	11.0	10.7	9.3	9.4
West	12.9	13.1	12.7	13.1
Total United States	13.7	13.6	13.4	13.4

Source: International Ice Cream Association.

Exhibit 5 Dollar Share Trends by Segment in the U.S. Frozen Dessert Market

	1985	1990	1993
Economy	13%	13%	11%
Regular	46	34	31
Premium	26	34	37
Superpremium	6	8	12
Other	9	11	9

Source: International Ice Cream Association.

Exhibit 6 Ice Cream Flavors: Total U.S. Volume Share

Flavor	Share
Vanilla	28.1
Fruit	15.2
Almond/Nut/Pistachio/Other	13.5
Candy Mix-ins	12.5
Chocolate	8.2
Cake/Cookie Mix-ins	7.4
Neapolitan	6.9
All Other Flavors	5.5
Coffee/Mocha	2.7

Source: International Ice Cream Association.

Exhibit 7 U.S. per Capita Production of Ice Cream and Related Products (quarts)

	1985	1991	1992	1993	1994
Ice Cream	15.10	13.68	13.58	13.44	13.47
Ice Milk	5.04	5.31	5.15	5.05	5.53
Frozen Yogurt	NA	2.33	2.10	2.33	2.32
Sherbet	0.81	0.75	0.78	0.79	0.84
Water Ices	0.84	0.89	0.83	0.90	0.98
Other Frozen Dairy Products	NA	0.52	0.81	1.02	0.92
Total Frozen Products	22.38	23.53	23.25	23.53	24.06

Source: International Ice Cream Association.