

## **Stadium Foods Company**

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### **Introduction**

Stadium Foods Company (SFC) is a manufacturer of processed meat products located in Pittsburgh. SFC was launched in 1962 by the Booth family, who purchased a bankrupt company to gain access to existing manufacturing scale. SFC used the wide appeal of sports and the clear consumer tie-in of hot dogs to sporting events to build its Stadium frankfurter brand into one of the best known packaged meat products of the 1970's. A large consumer products company, Diversified Foods, had purchased SFC in 1986, after which the performance had steadily declined to the point where Diversified had decided to fold the division into a sister company and eliminate the management overhead. Diversified reversed course the day before the announcement was to have become public, and brought in a new management team in the hopes of turning around the performance of SFC.

### **Diversified Foods and the Processed Meats Industry**

Diversified Foods competed in a variety of food product categories including frozen dinners, bakery products such as bagels and frozen pies, and processed meats products such as sliced and deli lunch meat, smoked and breakfast sausage, and frankfurters. The processed meats segment of Diversified's business consisted of ten companies, most of which had been family businesses or had grown out of other small startup companies. Several of their larger divisions competed across the full product spectrum in processed meats, while others like SFC were specialized in a particular product category, such as hot dogs or breakfast sausage. The divisions were managed largely as autonomous companies, though Diversified did have executives at the top level who worked with the divisions to coordinate strategies.

The processed meats industry consisted of Diversified Foods, a similarly sized competitor called Roman Foods Company, and many smaller companies that concentrated on a particular product category or a certain regional market. Roman Foods produced and marketed the 4 Kids brand, which was the most dominant player in the hot dog category. Like Diversified, Roman Foods had other products which were strong players in the other processed meats categories. The industry was considered mature, since with the exception of a few small new categories such as snack lunch meat, sales growth ranged from 0% to 2% annually.

The processed meats industry was fairly price-sensitive, though the establishment of a strong brand identification combined with excellent product quality allowed certain products, such as the Stadium and 4 Kids brands in hot dogs, to achieve premium status and command a correspondingly higher price. Brand advertising was a key in many product categories. Hot dogs in particular were often an "impulse" purchase –

consumers were observed to buy more hot dogs after seeing advertising for the product, even if it item was not on their original shopping list.

Many of the products in the processed meats category were very seasonal in their sales patterns. For example, breakfast sausage sold particularly well in the winter months when people were more likely to prepare a hot breakfast for their families. Similarly, hot dogs sold best during the warmer weather months, with exaggerated sales spikes around the three summer holidays – Memorial Day, Independence Day and Labor Day.

The hot dog market was relatively fragmented, with Stadium and 4 Kids brands being the only two products with true national distribution. Other brands were largely regional players, though some were expanding towards a more national presence. Many competitors of SFC offered a more complete line of processed meats products including packaged and deli counter lunch meats, bacon, smoked sausage. Until recently Diversified Foods had relied on SFC's sister divisions to compete in those categories.

### **The Stadium Foods Situation**

For many years, Stadium Foods Company had competed exclusively in the hot dog category. Its flagship Stadium brand products had enjoyed a rapid period of expansion, supported by a national media campaign. In addition to the Stadium brand, SFC also produced and sold hot dog products under the Grillers and Hi-Top brands. Grillers was the company's first poultry frank, and Hi-Top was positioned as a low to mid-market brand. Both brands had achieved market shares in the top ten within the hot dog category.

As the Stadium brand became more prominent and the family had aged, the company had become a prime acquisition target and was purchased by Diversified Foods in 1986. Diversified was one of the fastest growing companies in the food industry, and its stock was a strong performer in the market. The company was well known for its rigorous management processes that held executives strictly accountable for delivering targeted profit performance.

Since the acquisition by Diversified, the performance of SFC had trailed off. Several key executives left the company after receiving large bonuses when the company was sold, and two new management teams had failed to achieve their targets and were fired. In fact, since the acquisition, profits had steadily declined from their historical highs. Recently, several new products had been introduced in an attempt to compete more broadly across the packaged meats spectrum. New products included Stadium lunch meats, Grandpa's hams and Quicke Weenies, a microwavable frank in a bun targeted at children. The new product launches had been reviewed with the top executives at Diversified, but had met with a lukewarm reaction. Diversified was concerned that SFC's brands would not extend well into these categories, and also that the corporation already had sufficient presence in these markets from its other processed meats divisions. However, in the spirit of autonomy, SFC had been allowed to proceed with these introductions.

In 1996, profits reached a five-year low, and with a few months left in the year, Diversified had decided to fold SFC into another division to realize the savings of eliminating SFC headquarters personnel. For the past three years, Diversified had set a pre-tax profit target of \$15 million for SFC, although it was their desire to achieve annual profit growth of 10-15%.

Just before the press release announcing the headquarters closure was to have gone public, Diversified decided instead to try one more executive change to revive the company. Brad Witherspoon was appointed division president, and shortly thereafter, he dismissed the chief financial officer Sara Betz, choosing Ronnie Ortiz, the CFO of a smaller Diversified division, as her replacement. Ortiz had been credited with orchestrating a turnaround at his previous division. In Ortiz' second month on the job, he discovered several problems with the company's accounting practices. Ortiz informed Witherspoon that the corrections would require a catch-up in overhead and maintenance expenses of approximately \$2 million, and that with only three months to go in the year, it was clear that SFC would once again fall short of its corporate profit target. Witherspoon smiled and said, "Well Ronnie, you're going to have to tackle this one without me. I just accepted the CEO job at a big bread company. Pittsburgh is just too darn cold for me and my family."

Diversified's CEO and corporate CFO called Ortiz a few days later. The CEO told Ortiz, "Look, we're going to get a new president in there as soon as we can, but the search process could take months. None of the obvious internal candidates want to come to Pittsburgh, or frankly to take the career risk of coming to SFC. We can absorb the accounting issues you've found so far and still make this year's corporate targets, but you've GOT to get this thing figured out in time for us to get back on track for next year. We're looking to you to be in charge, but we can't announce it that way or the rest of the team may start leaving. Let us know how we can help."

Ortiz had already begun a detailed analysis of the company's declining profitability, and he quickly accelerated the completion of this effort. He realized that coming up with a successful turnaround strategy before the arrival of the new president could greatly accelerate his career at Diversified, but he also knew that several management teams had tried before and failed. SFC's other vice-presidents were resentful that Ortiz had been made the de-facto president and were only politely cooperative in responding to his questions.

Ortiz believed that the solution to the company's problems lay in the market and financial data he had compiled. A complete summary of the facts he gathered is shown on pages 3 and 4 (1996 reflects the latest division estimate before correction of the identified accounting issues). Ortiz decided it was up to him to deliver a new SFC strategic plan to the corporation in two months, before the arrival of a new division president.

**Table 1. Historical P&L Data for Stadium Foods**

**SFC Income Statement**  
(\$ millions)

	<u>1994</u>	<u>1995</u>	<u>1996</u>
Sales	\$134.5	\$141.0	\$154.0
Product Costs	89.2	94.6	105.8
Promotional Expenses	16.0	17.0	19.4
Media Advertising	11.0	10.0	7.2
Major Plant Repair Exp	3.0	4.0	6.0
Administrative Overhead	6.2	7.2	8.0
Net Income Before Tax	\$9.1	\$8.2	\$7.6

**Table 2. 1996 Hot Dog Market Share, Pricing and Perception Statistics**

	Avg Price/Lb at Retail (Nationally)	Market Share Dollar Basis	Brand Recognition (1)	Quality Perception (2)	% Sold on Promotion
<u>Brands of Diversified Co.</u>					
Stadium Brand	1.88	6.8%	34%	88	49%
Hi-Top	1.26	2.1%	8%	41	68%
Grillers	1.03	1.3%	6%	39	68%
Big South	1.52	3.6%	10%	69	61%
<u>Other Key Brands</u>					
4 Kids	2.14	21.2%	35%	73	38%
Dude Ranch	1.49	5.1%	11%	54	59%
Star Of David	2.99	2.7%	13%	96	24%

(1) % of consumers who recall product when mentioned

(2) Rated 1-100 by consumers recognizing the product

**Table 3. SFC Product Cost Information (last 12 Month average)**

	Direct Product Cost/lb	Manufacturing Overhead/lb	Total Cost/lb
Stadium Franks	0.60	0.20	0.80
Stadium Lunch Meats	1.22	0.40	1.62
Hi-Top	0.45	0.13	0.58
Grillers	0.31	0.09	0.40
Grandpa's Hams	1.62	0.52	2.14
Quicke Weenies	1.01	0.44	1.45

Note - Overhead rates are not equal since some products are manufactured at SFC's sister division plants and carry the rates of those facilities

**Table 4. 1996 Product Sales Information**

Annual Sales	In Lbs (mm)	In Dollars (mm)
Stadium Franks	65.0	\$87.4
Stadium Lunch Meats	2.5	\$4.7
Hi-Top	40.0	\$30.4
Grillers	35.0	\$17.0
Grandpa's Hams	5.0	\$12.5
Quicke Weenies	1.3	\$2.0

**Table 5. 1996 SFC Hot Dog Manufacturing Capacity Utilization**

	Winter	Spring	Summer	Fall
Plant One (120 mm lbs/yr)	48%	94%	91%	46%
Plant Two (80 mm/lbs/yr)	46%	92%	93%	48%

Note: 10 million pounds of product can be produced in advance using a "deep chill" process. SFC has chosen not to utilize this approach because of a slight degradation in product quality that results.

Other Diversified Foods plants have the capacity to produce up to 10 million pounds of additional hot dog products for SFC, but not during the peak selling seasons.

**Table 6. 1996 Promotional Rebates to Retailers (\$mm)**

Stadium Franks	\$8.0
Stadium Lunch Meats	\$0.9
Hi-Top	\$6.0
Grillers	\$2.9
Grandpa's Hams	\$1.2
Quicke Weenies	\$0.4

Note: New products incurred unusually high promotional costs due to "slotting" fees paid to retailers in order to get the products into the stores. Whether a product continued to be carried depended on its performance at retail.

Note: 1996 P&L reflects needed accounting adjustments and can be assumed to be an accurate forecast of the final results for the year.