Snacks Plantain Home: Diversify or reposition?[1]

A meeting was held in January 2016, in the Colombian city of Medellin, with the board of directors of the company Plantain Home. Plantain Home is a company that produces and sells snacks. The stock composition is represented by four partners, who are considering whether they should diversify the product portfolio or reposition the current brand. Both alternatives intend that the company will continue to grow and overcome an accumulated financial deficit close to COP $352 million in 2015, and a net loss of COP $150,704,000 in the same year. Despite sales growth of 22.63 % between 2014 and 2015, this has been insufficient to recover the accumulated losses.

Luis Duque and Claudia Ramírez, founding partners of the company, are convinced that it is necessary to: develop a new *platanitos snack* (*Little sliced plantain snack*) with spicy flavor in a period not exceeding one year; preserve the same characteristics of the packaging presentation and the labels of the products with an artisan look; expand coverage in Medellin to focus on its current customers, supermarkets and coffee shops, and additionally to get new distributors such as middle class neighborhood corner stores (*tiendas de esquina*).

On the other hand, Iván Rodríguez and Carlos Hincapié, investment partners of the company, propose repositioning the Plantain Home brand, modifying the packaging presentation of existing products; conquering a new market segment where the final consumer is willing to pay a higher price for a superior quality product that meets their preferences in this type of *snacks*, with the possibility of distributing products in two new supermarket chains in Medellin, aimed at more demanding consumers with greater purchasing power.

Founders

Luis Duque is a business administrator with a grad course in Management. He was a university professor in Medellin for 16 years, teaching subjects of administration and marketing. He has been the manager of the company since its inception. He engages in production supervision, manages relationships with suppliers and contacts with new customers in the distribution channel with chain stores. He owns 25 % of the company.

Luis' decision to create the snacks company was due to the need to recover from a bankruptcy he underwent with a meat product business in the year 2003, a loss that amounted to COP $498 million. Most of the financial resources that had been invested in this business came from a loan requested from a bank.

The reasons Luis Duque had to close the meat products company were, in summary, as follows: the cumulative losses he had and the difficulties he had to face amidst one of the biggest economic crises experienced in Colombia between the years 1998 and 2002. In 1999, for example, a negative growth of the gross domestic product (GDP[2]) was registered at a top

[1] This case was developed for academic purposes only for classroom discussion purposes. In no way does this case study seek to serve as guarantees, primary data sources or examples of good or poor management. Therefore, some data and figures have been modified and some characters have been invented.

[2] The Nullvalue (2003). Information published by the newspaper *El Tiempo*.

4.5 %. This situation, coupled with the high level of indebtedness that Luis as the legal representative had to assume, led him to make the decision to close the company and file for bankruptcy.
After dealing with this difficult financial and emotional situation, Luis was able to reach a payment agreement with his creditors and took some time to think and evaluate alternatives that would allow him to recover financially. He decided to continue teaching, and with this income he paid a small part of his debts and managed to get by.
Claudia Ramírez**,** Luis's wife, is a founding partner of the *snacks* company; she owns 25 % of the company. She is a certified public accountant and has a conservative mentality. As the company's Administrative Manager, her main functions are related to ordering from suppliers, analyzing the costs, managing the creditor's accounts payable and attending to administrative matters. She was in disagreement with some investment decisions that should be made for the growth of the business.

Origin and evolution of Plantain Home

The intention to produce and commercialize green *platanitos* began as an informal business in January of the year 2006. It started operations in Medellin, as a family microenterprise initially called *Alimentos Luisfer*. As mentioned, Luis Duque was aided by his wife and an assistant who was in charge of the production of *platanitos* snacks. On the other hand, Luis was investigating new techniques and formulas to make this product an optimal quality product, and visiting potential customers.
In the first 18 months of operation of the business, Luis faced major financial difficulties that made it difficult to purchase raw materials. There was also an evident shortage of human and technological resources, artisanal production and improvised logistics. Luis knew it was necessary to publicize his products, and began to visit delicatessen outlets[3], where he gave tastings to the owners and consumers; this activity allowed him to generate new sales.
In June 2007, Claudia was very worried to know they did not have the resources needed to continue growing. This situation led her to have a discussion with Luis in relation to the intention of making new investments in machinery and in larger facilities.
In September 2007, sales continued to grow and so too were the customers' demands. Luis Duque then had to obtain permits and licenses from the National Institute of Food and Drug Surveillance, INVIMA (*Instituto Nacional de Vigilancia de Medicamentos y Alimentos* - for its acronym in Spanish). For this procedure, he should invest the sum of COP $3 million, in addition to purchasing of machinery close to COP $9 million more to mechanize the production of *platanitos*. Luis, committed to ensuring that his company would grow, he decided to attend trade fairs and local events in Medellin, and this allowed him to publicize his product quickly and exceed his monthly sales goals; such was the growth that they went from producing 10 kilos a day to 100 kilos a day in the second half of 2007.
As of December 2009, the company had already managed to increase its production by 42.85 %, i.e. a production increasing from 1,300 units per month to 3,500 units per month, as a

[3] According to the Dictionary of the Royal Spanish Academy of Language (*RAE – Real Académia Española* – for its acronym in Spanish) (2016), Delicatessen or deli (*charcutería- in Spanish*) is a shop that sells sausages, cold meats and other products.

result of an effective response from the market. Due to the above, Luis Duque decided to move the company to a new headquarters, which needed to be adapted in order to solve problems of production capacity and storage logistics. However, by this time sales covered only the fixed costs. In 2011, the company already had a turnover of COP $18 million per month. Meanwhile, Luis should combine his teaching work along with the duties of being the manager of his company; sometimes he even used part of his personal income to invest in *Alimentos Luisfer*.

Growth of the company, 2012 - 2016 period

On April 1st, 2012, Luis and his wife decided to sell 20% of the company – for an amount close to COP $380 million – to Iván Rodríguez, who until then was a banana wholesaler, and one of the main suppliers the company relied on for the supply of this raw material, which is quintessential for the production of *platanitos*. This negotiation was carried out because Luis had the intention of paying off the debts incurred by the closure of the previous meat products company. Thus, it was agreed that such capital would not become part of the company's assets.

With the entry of Iván Rodríguez as the new partner of the company, it was decided to change the name *Alimentos Luisfer* into a new business name: *Plantain Home*.

In April 2012, Luis decided to stop teaching after 16 uninterrupted years. Although this activity represented an income close to COP $8 million a month, he wanted to devote more time to the company.

In June 2013, the company moved to a leased warehouse located in an industrial sector of the Colombia neighborhood in Medellin, with an area of 800 square meters which needed to be adapted to have a more technical production, with new machinery and refrigeration equipment. Monthly lease was COP $8 million.

In September 2013, the board of directors of the company knew that there was a need to inject additional capital in order to continue growing. At that time Luis, Iván and Claudia, aware of this situation, decided to sell 30% of the total of the company to a new investment partner, Carlos Hincapié, an entrepreneur, with studies in Financial Administration and a specialist in International Business. Hincapié owned several companies and was interested in investing in small businesses with possibilities for growing in the market. During the negotiation, Carlos bid for 50 % of the company, but the partners rejected his offer.

The negotiation was concluded in the amount of COP $470 million, which was invested in the company as working capital. These resources were intended to improve the infrastructure of the facilities of the production plant, machinery, in research to develop new products and in the linking of new employees.

As of December 31st, 2015, the company Plantain Home reached sales of COP $662 million, and obtained a net loss of COP $ 150,704,000. These sales were made in three chain stores segmented to middle-class homes. This channel represents 90% of the orders received by the company, whilst the remaining 10% is achieved through sales in convenience stores, delicatessens, college coffee shops and cinemas. The company has no budget to develop campaigns of traditional mass media advertising, but has implemented a marketing communication strategy through social networks, by means of which it is intended to advertise their products in their market segment.

The product portfolio consists of two lines: green and ripe *platanitos*, and homemade potatoes. Each of these is offered to the market in personal and family size. The *platanitos* line has two flavors – natural and lemon. The potato chips line has three flavors: natural, lemon and lemon-pepper.

The installed capacity of Plantain Home was changing according to the growth that the company would have on the market. The production to December 2015 totaled 74,400 units per month, representing an increase of 56.58 %as compared to the last 4 years. 60% of the production is *platanitos* and 40% homemade potato chips. The production plant works three shifts from Monday to Saturday, 48 hours a week. It has 42 employees (19 thereof are operators) and the others hold commercial and administrative positions.

The final consumer targeted by Plantain Home is characterized by the following profile: 95% belongs to middle-class socioeconomic level, and 5% is upper class. 89% of consumers are aged 18 to 40; 8% is young people aged 15 to 17 years, and 3% is aged 41 to 50. With respect to consumers' occupations, 65 % are university students, and 35% corresponds to office employees. These consumers like natural *snacks* with a homemade touch, fresh ingredients and without chemical preservatives. They prefer to consume them on different occasions and throughout the day. The packaging presentation is not a priority. They are willing to pay a price higher than the brands better positioned in the market[4].

***Snacks* market in Colombia**

Until the year 2014, the snacks market in Colombia was dominated by microenterprises, with the 91.67 %, followed by small businesses, with 3.7 %; only 0.93 % is small and medium-sized enterprises and the 3.7 % is large enterprises. In total, there are 125 companies in the country, of which 12% are located in Medellin. Big companies have 96% of sales participation, and medium-sized barely get 1%. Small companies get a 2.5% of sales participation in the *snacks* market[5].

Brands that belong to large and medium-sized companies in the *snacks* market in Colombia are seeking to combine innovation, product quality and colorful packaging presentations. The most widely used distribution channel is wholesale and retail distributors, among which are mainly hypermarkets and supermarkets, corner shops and coffee shops. Smaller companies tend to rely on corner shops, coffee shops and some supermarkets focused on capturing consumers who belong to market segments that are price-sensitive and smaller in size, who show interest in having good tasting, fresh snacks, with a natural and homemade appearance, with ingredients that are healthy for consumers.

At the beginning of 2014, the Colombian *snacks* market reported revenues of COP $1,900 billion, led by potato chips and *platanitos*, followed by assorted products[6]. The consumption of these products made their sales reach US $7.54 billion in 2015. This figure represented an average annual growth of 3.8 % between 2010 and 2015. For 2016 and 2017 an annual growth of 5.6 % is expected. Projections indicate that sales of *snacks* will reach US $8.363

[4] Consumer characterization study of Plantain Home (2015).

[5] Observatorio Agrocadenas (2013) Information of Confecamaras and Business Superintendece.

[6] Euromonitor (2014), information published by Pro Ecuador.

billion in 2019[7]. Bogotá represents 60 % of the country's demand for *snacks*, and the cities that follow are, in their order, Medellin, Cali, Barranquilla and Bucaramanga.

In Medellin, there is a wide range of national and foreign brands, which offer a wide range of products that are differentiated by the packaging presentation, size and flavors, as well as the distribution channels they use.

According to a study published by Euromonitor in 2014, consumer preferences in *snacks* consumption are as follows: 82 % of the respondents valued freshness, and 78% had preference for good taste; 62 % of consumers like them with have some fruit flavor; 56%, like chewable products, and 49% prefer crunchiness and crispiness. Among the respondents, 39 % likes a salty snack, and 25% prefer a small size; 21% expresses appreciation for a spicy flavor[8]. The Colombian consumer prefers the 30, 40, 50 and 140 grams aluminized packaging, values the *snacks* for their flavor and texture, and preferably to be nutritious and natural. Attractive, colorful presentations are highlighted, with more sophisticated packaging[9]. Additionally, this study of Euromonitor has led to the discovery of other functional factors that induce consumption of *snacks*, including the following: 31% of consumers often purchase this food product to deal with hunger, and eats them between meals; 30% argues that the reason for consuming is by nutrition; 27% of consumers eat them often for an energy boost, and 21%, to cheer up. The annual *snacks* consumption per capita in Colombia is of 1.9 kilos, after México, with 3.8 kilos, and Chile, with 2.7 kilos per year.[10]

Competitive dynamics in the *snacks* market

Large Companies

The way to compete in the *snacks* market in Colombia, and in particular in Medellin, differs according to the size of the companies. There are four large companies with extensive professional background, experience and financial power, which have a market share of 94 %, while there are 15 small and medium-sized enterprises that have a market share of 6 %. The major companies are: Frito Lay, a subsidiary of Pepsico Group, Yupi, *Comestibles Ricos S.A.* and Uniban. This group is completed by *Productos Ramo*, with over 50 years in the bakery industry, who decided to diversify its portfolio and began to compete on June 30, 2015, launching two *snacks*: green and ripe plantains. Each of the big brands competes from day to day for greater participation in the market through different pricing, distribution, communication, segmentation and brand positioning strategies.

These brands are committed to innovation in the development of new flavors and differentiation into new presentations, with the use of eye-catching images and textures that capture the attention of consumers. Prices in the market differ according to the size, as well as by the attributes they possess and for the quality that each one has. Frito Lay is the largest investor in mass media advertising (radio, newspapers, magazines and television channels), while Yupi, Uniban and *Comestibles Ricos S.A.* invest little in these mass media, but implement strategies of point-of-sale promotions with discounts in school seasons, offers, prizes and competitions. In addition, there are important digital marketing and social

[7] Study conducted by Euromonitor (2016), published by *Revista Dinero* (2016).
[8] Study by Nielsen (2014), published by the *Revista Dinero* (2014).
[9] Euromonitor (2014), information published by Pro Ecuador.
[10] Euromonitor International (2013), published by Portafolio.co (2013).

networks strategies such as commercial videos on YouTube, Facebook and Twitter, and on their company web sites. These brands use a strategy of intensive distribution through multiple distribution channels, mainly supermarkets, convenience stores, coffee shops and corner shops. The channel that represents the greatest demand is corner shops, with80 % of sales, while the supermarkets and convenience stores are only 20%.

Frito Lay multinational

Frito Lay is the number 1 brand on the *top of mind* in Colombia. It has 60 % market share in Colombia and has managed important mergers with domestic companies. It acquired three companies in the industry, Crunch, Jack's Snacks and Margarita – the latter had become their main competitor. Frito Lay is very strong in the distribution channel of chain stores, corner shops and coffee shops. In the line of *platanitos* it has Natuchips and in potato chips, the Margarita brand. The presentation used in their products is colorful and very modern, in which the image of the product is appreciated. Its price is the highest in the market (see Appendix 2 and 3).

Productos Yupi

It was founded in 1978, has 15 % of market share[11] and occupies the second position in the *top of mind*. It has succeeded in strengthening the domestic market with a strategy of innovation in its products with fun packaging. Nowadays, it also *Tocinetas Fred* bacon chips, the most recognized brand in the domestic market, and products of cultural inspiration such as *arepas* and *empanadas*. Today it has 7 brands and 140 references. It has a strong distribution network in supermarkets and corner shops in 11 cities of Colombia, including Bogotá, Medellin, Cali and Barranquilla**.** Its market segment is mainly made up of children and young people[12]. The price is cheaper than the Frito Lay brands.

***Comestibles Ricos Ltda*., a company founded in 1961**

Owner of the Super Ricas brand, it owns 11 % of the domestic market share[13]. It has 12 product registered trademarks and more than 30 references, among them the Potato chips and the *platanitos* Super Ricas. It was the first company in the country specialized in potato chips, and a pioneer in the implementation of new flavors. Since the year 2009 it has promoted a strategy of product innovation. The positioning achieved is based on the authentic and unique flavor. The current packaging is metalized, and the logo is the symbol of a smile.

Uniban S.A.

The company features the *Turbana platanitos* Chips brand. It emerged in 2012, and 4 years later it has achieved a market share of 8 %[14]. It is the most important exporting company of banana and plantain in Colombia. The Turbana Chips *platanitos* have nine flavors; the positioning strategy is developed through a modern presentation of its product packaging (flashy and colorful); health benefit claims are advertised in their messages thanks to the completely natural character of their products. In addition, their products are said to not

[11] Elpais.com.co (2014).
[12] Yupi (2016).
[13] Portfolio (2014).
[14] Uniban S.A. (2016).

contain trans and saturated fats and have zero cholesterol, no preservatives or additives, gluten-free, rich in fiber and potassium, and are not genetically modified[15]. This is a brand that does not develop any advertising strategy in mass media. Its brand communication strategy relies on social networks like Facebook, YouTube, Twitter, and in the updating of content on its website and search engines; the distribution strategy comprises a broad distribution network in 32 municipalities in Colombia through chain stores.

Small and medium-sized enterprises

The group of small and medium-sized enterprises to which Plantain Home belongs knows very well that it is not easy to compete with large companies; for this reason it choose market segments geographically located in different neighborhoods of Medellin. It has specialized in satisfying the flavors and preferences of those consumers for whom healthy eating and homemade flavors are the priority in the choice of this type of *snacks*. These companies offer little variety of *snacks*, mainly potato chips of different flavors and green and ripe *platanitos*. The artisan appearance and elaborated in transparent plastic packaging materials they use, are low cost in its production. The prices that handle small and medium-sized enterprises and that compete directly, are very similar between them, and are below the brands of large companies. The communication strategy is reduced to a digital marketing, social networks and the boost the distributors manage to attain. Below we describe the three strongest competitors of Plantain Home.

La Reina

It is a medium-sized company, founded in Medellin in 1960, which has a modern production plant. It does not produce *platanitos*, but handles the line of potatoes with natural and lemon flavors. For the packaging presentation, this brand uses a resistant material in a plastic bag, which allows consumers to see the product. Its positioning strategy is to manage low prices and excellent quality in its products, with a homemade flavor[16]. Its distribution strategy is developed mainly in 12 supermarket chains in 6 cities, including Medellin and Bogotá. It is also present in coffee shops, does not invest in mass media advertising, and has its own web page.

Andrew's Snacks

It is a family business founded in 2006, classified by its size as a medium-sized company. It is specialized in producing and selling only *platanitos* and potato chips. In 2009, the company was in the process of mechanizing the production; it offers 9 product references. Its positioning strategy is aimed to highlight the attributes of the product, saying that they are crunchy, homemade and with different flavors to share with family and friends[17] (see Appendix 9).

Fratello

It is a medium-sized family company, located in Medellin, which produces and sells potatoes, green and ripe *platanitos*; the remaining products are pork rinds (*chicharrines*) and

[15] Uniban S.A. (2016).
[16] Producto La Reina (2016).
[17] Andrew' Snacks (2016).

rosquitas. It distributes products through supermarkets, corner shops, schools, delicatessens, liquor stores, restaurants, supermarkets, and also by orders directly from consumers[18]. The packaging presentation is transparent, allowing to see its content; it has a label with the brand name and the information about the product ingredients. Its communication strategy is reduced to the contents of its web page, and commercial allies encourage and stimulate the sale of the product in social networks with a suitable display.

The decision: diversify or reposition

The board of directors of Plantain Home aims at seeking strategic solutions that will enable the company to continue growing, to minimize the risk of the decisions to be taken and choose which of the solution alternatives is best for them to implement. Discussions become heated, and differ substantially by what each represents and the implications that each may have on the market and in the financial field.

Alternative A: portfolio diversification

Luis and Claudia have investigated the new consumer preferences, and found that 21% of them in Colombia appreciate *snacks* with spicy flavor[19]. This information produced a great interest in developing a new product of *platanitos* with spicy flavor, which should be in the market within a period not exceeding one year. They also took the time to study the profile of the segment for the new product, and concluded that it should be aimed at consumers between the ages of 17 and 30 years, with an adventurer, extrovert and sociable lifestyle and willing to try unusual flavors and creative combinations, bold and innovative proposals such as *snacks* with spicy and intense flavors.

The aim is to position this new product by setting a market inception price of COP $1,200 in the first six months, and then gradually increasing the price up to COP $1,500. Because of the characteristics of the consumer, the development of a *pull* brand communication strategy is planned through social networks such as Facebook, Twitter and YouTube. In addition, the implementation of a *Push* communication strategy is also planned, where the members of the distribution channel, develop an important role in driving the new flavor of *platanitos*.

The new product is expected to keep the same presentation characteristics of the current packaging, in order not to cause an increase in the variable cost, which represents 5 % of the unit cost. The packaging material used thus far is characterized by being plastic, which allows to see the whole of the product in its interior. The material is also thin-walled, so it gives the feeling of not being very resistant; with an artisan seal, a sticker placed manually, with very basic information, white background, and with the description of the nutrition facts, date of manufacture and expiry date. The label also includes the bar code, the generic name of each product and brand in a smaller size. The only color that stands out is the green of the brand. The presentation is very similar to the one provided by the Fratello brand, which has become a direct competitor.

The profit margin of the products they are offering is 13%, and the new product is expected to provide a margin of 15% per unit.

In addition, there is a need to invest in the purchase of two new deep fryers that facilitate the production of spicy *platanitos* and a new technology for the packaging, which represents

[18] Fratello (2016).

[19] Study published by El Tiempo.com (2016).

an investment of COP $150 million in machinery, which should be carried out through a bank loan, deferred to 60 months, at an effective annual interest rate of 14%, i.e. 1.01 % monthly in arrears. This decision would increase the production capacity by 15% for the manufacture of *platanitos,* additional to that which was held in December 2015.

The distribution strategy proposed by Luis is to expand coverage in Medellin to achieve greater presence in new members of the distribution channel, without ceasing to be a local company. This decision would lead the company to focus on its current customers, supermarkets and coffee shops, and to get new distributors, such as corner shops of middle-class neighborhoods. The intention is to further strengthen the presence in this type of intermediaries, since this channel in Colombia represents 80% of *snacks* purchases, while in the supermarkets represents 20% in that category. The goal is to get 20 corner shops in the year 2017, which placed the entire product portfolio, in order to reach a volume of monthly sales of 85,560 units, of which 5,952 units correspond to spicy and 5,208 additional units in the production of natural and lemon flavors *platanitos*. These units, compared to the 74,400 units per month that they are having up to December 2015, represent an increase of 15% in the first year. Luis and Claudia plan to have growth rates of 8 % per year from the year 2017 and up to the year 2020.

Alternative B: reposition the brand

Iván and Carlos, who possess the other 50% of the shares of the company, are not convinced that the current strategy of positioning is correct. However, they acknowledge having achieved significant increases in sales in the last 3 years, but they believe this is not sufficient to cover the financial deficit that they have been taking. They proposed an alternative whereby the brand is repositioned, for which it is necessary to change the packaging presentation of the existing products into more modern and resistant ones, with metallic material, vivid colors that highlight the green of the plantains, which gives it a unique brand identity, where the homemade touch is highlighted on the label, thereby generating a new tactile experience, with designs that are pleasant to the eye of the customers. They know that if they do not achieve differentiation in the product; they are in the risk of losing participation in the market in the next few years in the *snacks* category.

These two partners expect this change to conquer new consumers with a profile different from the current: between the ages of 30 and 50 years, belonging to a middle-class, medium to high and upper-class socioeconomic level, parents with children of school age who reside in Medellin, who prefer quality, natural and the good taste of snacks, who like to consume this product in meetings with friends or at times of the day to deal with hunger and taste in the afternoons, while they carry out their daily activities. They are willing to pay a higher price for a superior quality product that will meet their wishes, and they like to select a packaging that is pleasing to the eye.

Using new packaging materials to improve the presentation of the product involves 8% of the cost per unit of the product, and the profit margin would be of 12% per unit, but it would compensate with the projected growth in the expected annual sales percentage: 18%.

Investment in machinery would be $225 million, destined to the purchase of more technical machinery for frying and packing, which would allow the company to optimize the work in its line of plantain slices. This purchase will be implemented through a financial credit, through a bank loan in the credit line of development for small and medium-sized companies, at an effective annual interest rate of 14%, and to a period of 60 months.

Thanks to the new purchase of machinery, the total production capacity would increase by 20% per month, and thus it would be possible to produce 89,280 units per month; this figure includes all the products in its portfolio. With the new presentation of the current products opens the possibility of reaching two large supermarket chains, located in Medellin, where the offered products are of high quality and, consequently, the prices of the *snacks* have increases of 11% per pack of 12 units, setting a price for the final consumer of $17,900. Sales would increase by 18% a year compared to 2015 sales. This negotiation is conditional upon a change in the presentation of current products. Distribution costs would increase to 3% per year (currently represents 20% of the product costs), and the production costs would increase to 4%.

There would be a pull communication strategy, through promoters who offer the product for tastings at chain stores, offering the product in 12-unit packages and strengthening the communication strategy in social networks.

The meeting of the board of partners is about to end, and they should make the best decision that will allow Plantain Home to continue growing and getting a better market share than it has been able to achieve so far.

1. Should Plantain Home diversify the product portfolio with a new product of spicy *platanitos* and keep the characteristics of presentation of the current packaging?
2. Should Plantain Home reposition the brand? What are the implications of making the decision to modernize the current packaging and go to a new market segment of chain stores of higher socioeconomic level?
3. What possibilities can Plantain Home have to compete with other brands on the basis of a new repositioning?

Appendixes

1. Company's financial situation, 2012 - 2015

	2012	2013	2014	2015
Ingresos totales	530.400.000,00	$ 536.500.000	$ 540.000.000	$ 662.220.000
Costo de Mercancía vendida	$ 441.600.000	$ 436.200.000	$ 425.000.000	$ 613.001.000
Utilidad bruta	$ 88.800.000	$ 100.300.000	$ 115.000.000	$ 49.219.000
Gasto operativo	$ 170.333.000	$ 171.600.000	$ 164.000.000	$ 199.923.000
Pérdida operativa	($ 81.533.000)	($ 71.300.000)	($ 49.000.000)	($ 150.704.000)
Impuestos	0	0	0	0
Pérdida neta	($ 81.533.000)	($ 71.300.000)	($ 49.000.000)	($ 150.704.000)

Source: prepared by the authors, 2016

Translation of this Appendix:
Total income
Cost of goods sold
Gross profit
Operating cost
Operating loss
Taxes
Net loss

2. Prices of *platanitos* in the market, January 2016[20]

Price / Brands / Quantity	**Natuchips of Frito Lay**	***Super Ricas***	**Turbana Chips**	**Plantain Home**
Price per pack of 12 units for the distributor	$10,656	$10,200	$9,000	$9,600
Unit price for the distributor	$888	$850	$750	$800
Consumer price per pack of 12 units	$15,600	$13,800	$10.800	$12,000
Price to the consumer per unit	$1,300	$1,200	$900	$1,000

Source: prepared by the authors, 2016

3. Price of natural and homemade potatoes on the market, to January of the year 2016

Price/ tags/ Quantity	**Margarita of the company Frito Lay**	***Super Ricas***	**Yupi**	***La Reina***	**Plantain Home**
Price per pack of 12 units for the distributor	$11,400	$10.800	$10,200	$10,680	$10,400
Unit price for the distributor	$950	$900	$850	$890	$800
Consumer price per pack of 12 units	$16,800	$15,600	$13,200	$12,000	$13,000
Price to the consumer by Unit	$1,500	$1,300	$1,200	$1,000	$1,100

Source: prepared by the authors, (2016), with data on the distribution channel.

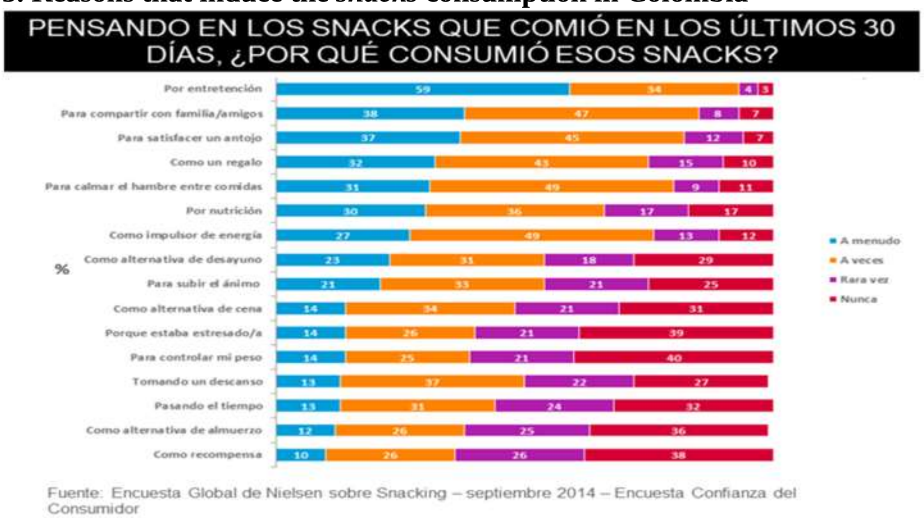
[20] Information obtained from the members of the distribution channel - supermarkets, mini markets, corner shops and coffee shops - and in the *Alimentos Oro Verde* Company.

4. Growth in the food sector, 2013 - 2017

Product	**2013 to 2017 Growth**
Baked Goods	3 %
Pasta	13.1 %
Processed frozen Foods	26.9 %
Snacks	27.8 %
Processed refrigerated foods	22.9 %
Canned Food	9.7 %
Sauces and preserves	12.7 %

Source: Euromonitor International, 2013

5. Reasons that induce the *snacks* consumption in Colombia



Source: Nielsen Global Survey on Snacking, 2014.

Thinking about the snacks you have eaten within the last 30 days, whay did you eat those snacks?

For fun
To share with family/friends
To quench cravings
As a gift
To deal with hunger in between meals
For nutrition purposes
As an energy booster
As a breakfast choice
To become cheered up
As a dinner choice
Because I was stressed out
To keep my weight in line
For a break
During leisure time
As a lunnch choice

As a reward

6. Top of the Colombian favorite *snacks*

Source Nielsen Global Survey on Snacking, 2014

7. Natuchips' new image

Source: Natuchips New image. 2016 Behance.net, 2016

8. *Platanitos* Turbana

Source: 2016 turbanachips.com, 2016

9. Packaging presentations of the Fratello and Andrew' Snacks brands

Source: Alimentos Fratello and Andrew' Snacks

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Snacks Plantain Home. Teaching note[21]

Case summary

This case presents the discussions of the board of directors of Plantain Home, wherein it is analyzed whether to diversify their product portfolio or reposition their brand to continue growing and overcome an accumulated financial deficit close to COP $352 million, by 2015. Plantain Home is a medium-sized company located in Medellin (Colombia) which competes in the potato chips and *platanitos* snacks market with homemade flavor characteristics and a packaging presentation of artisanal appearance. Founding partners Luis Duque and Claudia Ramírez intend to carry out a diversification by developing a new *platanitos* product with a spicy flavor, preserving the characteristics of packaging that comes with the offer in their other products. The other two partners, Iván and Carlos, prefer to focus on repositioning the brand Plantain Home and change the packaging presentation of their existing products into a more modern one, thus seeking to conquer a new market segment and distribute in two new chain stores. The use of this teaching case is intends for the professor to foster the ability to analyze the information and data supplied in assessing the implications of each of the alternatives in terms of marketing, without prejudice to the company's financial aspects.

Courses to which the case may be addressed

This case was written to be used by teachers and students of the master's level in Marketing and MBA, who teach courses of Marketing, Marketing Management, Market Segmentation and Consumer Behavior, as well as Product Management.

Students should analyze and decide which of the following alternatives is the best.

The first alternative is to diversify the line of *platanitos* across the board. To do this it is necessary to develop a new product with a spicy flavor, which should hit the market within a period no longer than a year, maintaining the same characteristics of the packaging presentation and the label of the current products, as well as its current low price positioning strategy.

This alternative involves concentrating on their current customers, supermarkets and coffee shops, and, in addition to securing new distributors such as corner shops of middle-class neighborhoods. It also implies reaching a monthly sales volume of 85,560 units, which represent an expected increase of 15% in the first year, and achieve growth of 8% per year from the year 2017 and up to the year 2020.

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[21] This case was created for the discussion of classes; therefore, some data and figures have been changed. The case is not intended to serve as a source of primary data or illustration of efficient or inefficient management practices.

The second alternative is to reposition the Plantain Home brand. To do so, it is necessary to modify and improve the presentation of the current product packaging for more modern ones, having notoriety in the exhibition at points of sale. This decision would entail a change in the price-benefit positioning strategy in order to conquer a new market segment through the distribution of two new chain stores where the visiting consumers have a demand at the time of selecting product brands. The projected sales would increase by 12 % per year.

Teachers interested in this case will be able to use it in their Marketing or Marketing Management courses. It is related to strategic marketing decisions, market analysis and competitive forces such as rivalry between competitors and market access barriers. Teachers will also be able to generate a space of analysis on product decision-making related to the presentation of packaging and labels.

In Market Segmentation courses, this case is related to strategies of market segmentation and brand positioning and, in particular identifying and selecting new and current market segments, while analyzing suitability thereof for the company.

In Consumer Behavior courses, this case may be used to examine factors that influence the consumers' purchasing decisions and the types of buying behavior.

The students of the Master's Degree in Marketing and an MBA should assess the market and financial situation of the company, the competition dynamics and the possibilities offered by each one of the alternatives, to make the decision on the best alternative, using marketing criteria associated with the analysis of new market segments, the consequences for the company in a possible change of packaging and price, and the consumers' perception.

With regard to financial evaluation, it will be necessary to make projections of growth in sales, levels of indebtedness, profit margins comparisons due to the purchase of new equipment, variations in costs and profit margins.

Learning objectives

This case has the following learning objectives:

1. To analyze - from a strategic and financial marketing approach – the implications, challenges and benefits of diversifying or reposition the brand, to be potentially faced by a medium-sized company that produces and sells *snacks* in a country with an emerging economy, while pushing to recover from the financial deficit and continue its growth within the market.

2. To apply knowledge related to product decisions, identification of new market segments, and brand positioning and repositioning strategy, thereby developing the ability to make the best decision possible from the information provided.

Case support readings for the Instructor and the Students

The learning objectives are associated with the corporate strategy in relation to its business model, diversification towards the international market and the project's financial evaluation criteria. It is suggested that the instructor review the following support readings.

1. Raheem, R., Parmar, V., and Ahmed, M. (March, 2014). Impact of Product Packaging on Consumer's Buying Behavior. *European Journal of Scientific Research, 120* (2), 145 - 157.

   This article explains how packaging has become a sales promotion tool for organizations that increases its image and stimulates the perceptions about the product. It analyses how the consumer's buying behavior is encouraged by boost due to the quality of packaging, the color, the wrapping and other characteristics of the presentation of a product, and how it may get to increase sales in the market.

2. Simkin, L., and Dibb, S. (1998). Prioritizing target markets. *Marketing Intelligence & Planning, 16* (7), 407 - 417.

   This paper examines the wide range of approaches proposed in the literature to identify the attractiveness of the market, and discusses the importance for all companies to know how to select their *target*. Variables such as market size, growth rates, competitive forces, customer adjustment and profitability are just some of the criteria that could be used by companies to assess the attractiveness of their market segments. However, many business managers continue to assess the target markets on the basis of short-term profitability measures.

3. Dimingo, E. (1988). The fine art of positioning. *The Journal of Business Strategy, 9* (2), 34 - 39.

   This article explains positioning as a process of identification and selection of a market segment that represents the business potential, through which the actions of the competitors should be considered and a strategy to compete should be designed. Essentially, the process is to determine the criteria for the competitive success, knowing what the market wants and needs, and to assess the needs of the market in which it is intended to compete.

Suggested question

If you were a member of the board of directors as a partner of Plantain Home, what would you regard as the best alternative to enable Plantain Home company to continue growing and overcoming the financial deficit faced in the year 2015?

Teaching plan

Class session general overview

The discussion session of the Plantain Home case in the classroom should focus on the analysis of the main dilemma faced by the partners of the company; to this end, the two opposing positions should be examined.

The first is related to the interest of the two founding partners to diversify the portfolio, which implies the development of a new spicy flavor of *platanitos* product for a new market segment, while maintaining the current positioning strategy, in order to preserve the existing customers and expand its coverage to corner shops in Medellin.

The second position corresponds to the Investment Partners, who seek to reposition the Plantain Home brand in a different way by modifying the presentation of the current products by modern, colorful and more resistant packaging, i.e. entering a new market segment and distributing the product in two new chain stores in Medellín.

In the analysis of this case, the teacher will be able to orient the discussion taking into account aspects related to:

Questions and discussion

1. Should Plantain Home diversify the product portfolio with a new spicy flavor *platanitos* product and preserve the presentation characteristics of the current packaging**?**

Diversification is a valid option based on the following arguments: the new product is aligned with a preference of consumption of *snacks* with spicy flavor, according to a study conducted by Euromonitor (2014) and that reaches up to 21% of consumers in Colombia. The opportunity to reach a new consumer segment arises. In a situation of financial deficit, one should be cautious in the level of indebtedness; that is why this alternative allows the company to make a minor investment to increase production capacity. In addition, the 15% profit margin is considered positive, which represents a 2% increase above the current one. Diversifying the portfolio allows the company to expand its coverage in the corner shops channel, which turns out to be very attractive to achieve greater growth in sales. It should be borne in mind that this sales channel in Colombia represents 80 % of *snacks* purchases.

Those who defend the alternative of not diversifying the product portfolio claim that Plantain Home faces a strong competition, and for this reason it requires differentiation in each one of the characteristics of the product. Keeping the same packaging presentation of the existing products would not generate recognition of the new product on the market and would not differentiate it from the other brands with which it would be able to compete. An in-depth study of the market should be carried out with the aim of finding the degree of interest for the target group (which requires time and more investment), and has not been contemplated by the partners, Luis and Claudia. It is not advisable, they argue, provided that the type of impact that could be obtained in the new consumers that are part of the 21% that are pleased by spicy *snacks* is uncertain.

2. Should Plantain Home reposition the brand? What are the implications?

Those who defend the position that Plantain Home should reposition the brand considering that the following factors should be analyzed:

- The *snacks* market dynamics in which Plantain Home competes, shows that it has had a significant and ongoing growth in recent years, but has weak entry barriers, making it relatively easy for emerging companies to venture into it.
- Consumers in a large percentage do not differentiate brands.
- There are three big companies that dominate the industry, who make a strong presence in the large surfaces channel and in most of the traditional channel; they also made strong investments in advertising, branding and innovation with new products.
- The traditional channel (corner shops and convenience stores in the neighborhood) in Colombia continues to be very strong. Despite the gradual growth of the large surfaces, the Colombian consumer continues buying several products in small stores for practicality, closeness and convenience.
- The *snacks* consumers' tastes and preferences have changed; there is a growing stream of people who prefer healthy products, low in fat and made with organic products.
- Being products in which consumers differentiate brands to a very low extent, the *merchandising* or products display at the point of sale is especially important.

In line with the above, they claim that the positioning strategy should be adjusted by means of a change in their packaging for them to generate visibility at the point of sale, but keeping certain features of traditional *snacks*, which is where the company has its market niche that has made it grow in recent years. Its distribution should be strengthened in the traditional channel through marketing strategies that make it profitable and attractive to the shopkeeper to sell the company's products, and has to bring new products into the market from time to time in order to satisfy new market niches, since the company does not have any brand positioning or identification at this time.

In addition, this decision would imply capturing of a new, more demanding segment, with greater purchasing power. In turn, this would help access new distribution channels and generate a brand differentiator, i.e. to compete in a new, higher target segment. The implications to be considered in this decision would also be greater investment, increase in costs and operational costs, which is a high risk taking into account that, there have been significant losses between the years 2012 and 2015. However, distribution costs would be reduced, while the selling price is more flexible in this market, which would result in an increase in sales and brand identity, thereby visualizing the projected growth in the *snacks* food sector (27.8 %).

Those who defend the argument that Plantain Home should not reposition its brand, analyze the following implications:

- Increase in the cost of new packaging material – this means an 8% increase on the unit cost.

- A COP $225 million bank loan is warranted, at a 14% effective annual interest rate, which means an additional annual expenditure of $ COP 31.5 billion for the payment of the interests of the same, during 5 years of the duration of the credit.
- Costs related to the production would increase by 4%.
- The unit cost of the product would increase by 8%; this has an impact on the purchase decision of the current consumers because they are sensitive to the price of the product.

In addition to the above, implementing this strategy would imply entering a market of the big competitors; the investment would be greater since it represents 33.97% of the company's annual sales (according to 2015 reports); the new market would be a segment of middle class where participation already exists, in addition to the upper class, which represents only 5 % of *snacks* consumption.

3. Should Plantain Home be present in the corner shops channel? Discuss the implications of this decision.

Those who believe that the company should enter in the corner shops channel should weigh out analyze the following aspects:

- Corner shops are the main distribution channel, by virtue of their scope, scale, closeness and bonds of trust with customers, representing more than 50% of the total sales of food products in Colombia, where most families are regular clients of these stores.

- It would involve investing in brand communication strategies, in order to effectively convey the value proposition of the business and its product portfolio, connecting with its target audience. It would also lead to carrying out sales promotions, which would generate costs overrun, but it would be compensated by creating brand recognition and thus publicizing the quality of the product.

- The retail distribution system should be strengthened.

- Presence in corner shops would lead to the identification of new marketing strategies aimed at this specific market niche (corner shops), obtaining in addition the possibility of identifying new market lines (to be able to penetrate with new flavors or products, such as potato chips).

- A *push*-type strategy could be promoted through shopkeepers when entering the corner shops market This should result in a sales increase of the product. However, there is still a risk that consumers do not accept the product or they may have a negative perception of the product upon seeing its presentation.

- Finally, the entrance to the corner shops segment would imply higher distribution costs. For this reason, the product unit price should be analyzed, so that it is competitive with the brands already positioned in this segment. In addition, one could think of strategic alliances with restaurants, bars and distributors, with the aim of channeling and capturing new market niches.

Those who do not think that the strategy should be directed to the corner shops channel believe that (in spite of being the distribution channel representing the highest percentage of demand) this channel is the most competitive of all. There are all brands ranging from large enterprises to small and medium-sized ones. Competitive rivalry is very strong due to price and differentiation, which would entail taking a high risk on the part of Plantain Home if it does not achieve an important and specific degree of differentiation in terms of perception by the target consumers.

4. What are the implications of targeting a new market segment of higher socioeconomic level chain stores?

- The conquest of a new market segment would be associated with a major change of image; in addition the product unit cost would be increased by 8 %, which puts it at a disadvantage, because the final sale price to the consumer would be higher than the price offered by its larger competitors.

- The repositioning strategy would involve a large investment, and the profitability of the company would also be affected down to just 12% per unit. It is a strategy for a market in which there is no dominant competitor.

- The risk is high because the competition (big companies) is positioned, and it has a good financial muscle, which represents a weakness. Nevertheless, its opportunity and strength, implies new trends in the consumption of healthy products and offers a product with greater benefits to higher value, introducing the product, allows it to differentiate itself from the competitors in this distribution channel, as noted above.

- It allows to expand at a lower cost (opportunity) and with a higher profit margin, i.e. it would be a favorable cost-benefit relation.

5. What possibilities could Plantain Home have to compete with other brands from a new repositioning?

Those who believe that the possibilities are minimal argue:

- The possibilities for the company are limited, since it does not have a stable financial muscle that allows it to make an investment of COP $ 225 million in machinery and endure it while positioning of its brand in a new market segment.

- In addition, it would be intended to reach a market segment in which there is already a high positioning of other brands; then it would be necessary to strengthen its communication strategy through a variety of channels, which would also involve the injection of more investment.

- This scenario allows us to identify that although it is projected to earn a 15% profit margin with the conquest of new markets, it would have to assume new expenses: 4% in production costs and 3% in distribution costs, without which this guaranteeing an adequate return on investment due to competition and price factors.

Those who consider that the Plantain Home has a chance to compete with other brands argue that:

- The brand repositioning of Plantain Home allows to compete in a new segment (aspirational public, looking for a different, exclusive and healthy option, generating recognition and differentiation with other brands).

Class time line

In- class discussion	
Analysis of significant events Origin and evolution of Plantain Home Analysis of the *snacks* market in Colombia Analysis of the competitors and competition dynamics in the *snacks* market Market segment to which Plantain Home is currently directed Features that Colombians value the most in the consumption of *snacks*	25 minutes
Identify the critical event or main problem	10 minutes
Identify and discuss the solution alternatives to the main problem	10 minutes
Evaluate the decision alternatives Diversify the portfolio	20 minutes
Evaluate the decision alternative to reposition the Plantain Home brand	20 minutes
The decision and closure of the case	5 minutes
In - class discussion time: 90 minutes	

Suggested blackboard plan

Assuming that in the classroom you can use three blackboards, the suggested division for the casa analysis is described below.

First blackboard

The *snacks* market in Colombia should be described; those who are the main competitors of Plantain Home; differences between large competitors and small and medium - sized enterprises belonging to this industry; analyze whether it is a competitive market or not; market shares; growth in demand in previous years and in sales projections in the next 4 years; consumers' preferences. In short, how the market in which Plantain Home competes is, is analyzed.

Second blackboard

Here, and based on the in –class discussion, the whole analysis of the type of company that Plantain Home is should be reflected: the portfolio that handles, the current resources, the financial situation, the growth in sales.

Third blackboard

It could reflect the discussion about diversifying the product portfolio, and maintaining the brand positioning or reposition strategy into a new market segment. Strategic and financial criteria, aspects that would benefit the company in every decision and the limiting factors of the two alternatives, as well as potential difficulties that might face should be analyzed.

First blackboard

Snacks market in Colombia
Is there competitive rivalry?
Is it strong or moderate?

Second blackboard

Analysis of the type of company that Plantain Home is
Evaluate the current market situation and the financial situation

Changes

Implications of targeting a new market segment of higher socioeconomic level chain stores, and what it entails to modernize the current packaging

Third blackboard

Analysis of the alternative to diversify the product portfolio through the development of a new spicy *platanitos* product Strategic criteria Financial criteria	Analysis of the alternative to reposition the Plantain Home brand modifying the presentation of current products Strategic criteria Financial criteria

To analyze the financial criteria, students should provide quantitative information, perform calculations based on profit margins, cost variation, sales projections, investments, indebtedness.