INTEGRATED CASE REPORT
DECEMBER 6TH 2018

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# TABLE OF CONTENTS

**Executive Summary** .................................................................................................................................................. 4

**Management**

Introduction ............................................................................................................................................................... 10
Labor Forecasting ...................................................................................................................................................... 11
Production Supervisors .............................................................................................................................................. 11
Selection Plan ........................................................................................................................................................... 12
Performance Rating Scale ........................................................................................................................................ 15
Potential Pitfalls ....................................................................................................................................................... 16
Compensation Structure ............................................................................................................................................ 17
Production Workers .................................................................................................................................................. 17
Bright Meals Culture ................................................................................................................................................ 19
Bright Meals Change ................................................................................................................................................ 20
Appendix .................................................................................................................................................................... 22

**Marketing**

Introduction ............................................................................................................................................................... 25
Competitive Landscape ............................................................................................................................................ 26
SWOT Analysis .......................................................................................................................................................... 27
Brand Perception ....................................................................................................................................................... 28
Customer Perceived Value ...................................................................................................................................... 30
Value Proposition ...................................................................................................................................................... 31
Positioning Statement .............................................................................................................................................. 34
Product Positioning Map ......................................................................................................................................... 35
Retailers ..................................................................................................................................................................... 36
Distribution ................................................................................................................................................................. 37
# TABLE OF CONTENTS

Pricing Promotion.................................................................38
IMC.........................................................................................42
Communication Strategy.....................................................43
Website Design......................................................................44
Social Media Recommendation..........................................45
Viral Marketing Opportunities.............................................47
Works Cited...........................................................................48

## Operations

- Introduction........................................................................50
- Project Management Schedule........................................51
- Equipment Decisions.......................................................52
- Evaluating Suppliers.......................................................53
- Operational Considerations............................................57
- Six Sigma Quality............................................................63
- Exhibits.............................................................................66

## Finance

- Introduction........................................................................73
- PFD Form...........................................................................74
- Financial Analysis............................................................74
- Additional Analysis.........................................................77
EXECUTIVE SUMMARY

In 1992 Bright Meals was born, originally marketed as a convenient frozen meal producer that made comfort food for consumers. Initially, some of its most popular dishes were Midwestern Salisbury Steak, Bright Fried Chicken Dinner, and Grandma’s Turkey Dinner. For years Bright Meal’s major target audience was women ages 28-42 shopping for an easy option to feed their families. Now, Bright Meals has shifted its focus to the largest existing consumer group: millennials. With this change in target demographic comes a need to change product offering, as consumer preferences have shifted towards demanding healthier options. This presents an exciting opportunity for Bright Meals to reevaluate its current positioning and introduce a new dish, Nashville Hot Chicken with Cauli Rice. By combining cauliflower rice with spicy chicken, the firm will cater to the needs of its new health conscious customers. To successfully launch this product in a highly competitive industry, Bright Meals must coordinate its management, marketing, operational, and financial efforts into a fully integrated plan.

When considering a new project, it is imperative to evaluate the competitive positioning of the firm as a whole. Many other companies such as Stouffer’s and Healthy Choice have previously made the decision to expand into the healthier frozen food market. While Bright Meals may not have the first mover advantage, it does have the ability to observe the successes and failures of its competitors and adapt accordingly. First, Bright Meals must understand its competitive positioning relative to top-tier and second-tier players. Bright Meals is considered to be a major player in the second-tier frozen food market, only barely falling behind Lean Cuisine in terms of market share. Additionally, Bright Meals does over 40% of the business that Stouffer’s (the biggest competitor in the market) does. Bright Meals is clearly experiencing success within the industry. Though it is not considered a top-tier firm, with this new product Bright Meals has the opportunity to create relationships with top-tier consumers while continuing to serve its core customer base.
EXECUTIVE SUMMARY

The differentiating factor in this new product is the cauliflower rice, which has seen exceptional sales within grocery stores in recent years. By adding this side to Bright Meal’s current offering, the company will create value for consumers seeking a convenient, microwaveable option. In order to achieve the sales it expects from this new product, Bright Meals must consider three important elements: packaging, price, and promotion. To attract attention from consumers, the packaging should reflect the value that it offers. This new product is very different from the typical Bright Meals option and needs to be marketed as such. By utilizing green and red packaging, the company can accentuate the freshness of the cauliflower rice and the spice of the Nashville hot chicken. In terms of pricing, Bright Meals will implement a skimming strategy in order to communicate the high quality of the product. This strategy aligns with Bright Meal’s CMO’s theory that it is far easier to lower a price than to raise an established price. In addition to its packaging and pricing, Bright Meals must consider what promotional activities to pursue. By launching an interactive social media campaign using character hooks, the firm can attempt to engage with potential customers. Featuring the characters “Spicy Nash” (a cartoon chicken) and “Cauliman” (a cartoon cauliflower) who go on adventures together, the marketing team can create fun, engaging content on Instagram, Snapchat, and Twitter. Users will be included in the creative process as well, having the ability to submit ideas for adventures using the hashtag #CauliTime. This social media campaign is a relatively inexpensive way to bring attention to the new product.

In order to dedicate sufficient resources to the new dish, Bright Meals must consider the operational implications of the project launch. The new product will be larger than previous offerings, using 14-ounce packaging instead of 9.5-ounce. The company should purchase new equipment to adapt to this change rather than modifying the existing line, as new equipment will provide more advantages to Bright Meals from the long-term perspective, such as minimized cost. The project management schedule will be 19 weeks to launch the new product in order to cater to unusually high sales during the peak season.
EXECUTIVE SUMMARY

Having a coordinated aggregate production plan based on customer requirements and capacity limitations can help determine the necessary inventory investment, labor hours, and production rates. Based on the operations team’s analysis, a chase plan is the best option for Bright Meals to implement in order to minimize costs. In addition, choosing a cauliflower supplier with good quality and in control processes will have a significant effect on Bright Meal’s new product quality and has immense long-term benefits for the company. Thus, with the considerations of quality and cost, Bright Meals should work with Southeast Supply to achieve the utmost quality in the new product. Furthermore, utilizing six sigma as a tool for product and process improvement should be considered by Bright Meals because it will help the company meet consumer needs, lower costs, and eliminate defects efficiently.

Along with the considerations presented by marketing and operations, Bright Meals must assess how this project will affect its internal hiring and methods of employee evaluation. One of the many changes that will need to be made at Bright Meals is in the labor department. With this new project comes an increase in production, which requires more workers at each plant location. Bright Meal's budget currently allows for 155 full-time employees in production. With a stable turnover rate of 24% and an increase in production of around 6% per year as a result of the new product, Bright Meals should expect to hire anywhere from 47 to 60 new production workers per year through the first five years of the project. By the end of the first five years, Bright Meals will have around 212 full-time employees in its production plants.

In addition to the increased production labor, Bright Meal's Director of Human Resources would like to add a new position, the Production Supervisor, to each plant location. This will be a major change to the current management structure, as it will bring the work of human resources in closer contact with production workers.
EXECUTIVE SUMMARY

The Production Supervisor will be responsible for all training with the new equipment as well as personnel decisions such as hiring and firing. The first challenge for management regarding this position is finding someone to fill it. A job description has been created and is outlined in detail later in the case. During the recruitment of this position, Bright Meals will focus on candidates who are adept at coordination, excel at deductive reasoning, and who have knowledge in personnel and human resources. These specific KSAOs are crucial for any serious candidate to be considered.

The final consideration to be made in launching a new project is its financial viability. To begin this evaluation, the finance team first analyzed the risk of Bright Meals as a firm. By comparing its returns to the S&P 500, the company was deemed to be about 30% more risky than the market (unlevered beta of 1.30). However, in order to evaluate the isolated risk of this new project, it must be benchmarked against previous comparable projects. Project P is considered to be the most similar to this new project, yielding a beta of 0.33. This beta was used in combination with historical average tax rates and debt to equity ratios to calculate a project cost of capital of 4.89%.

After determining this discount rate, the team projected the relevant incremental cash flows related to the project. Beginning with revenue, the sales in year 1 will be approximately $53.9M and should grow at 6% per year for the following 5 years. As the project proceeds, there will be operating cash inflows from tax savings of fixed asset depreciation, incremental product cash flows, and salvage values at the end of year 6. Additionally, the present value of cost for both the buying and leasing options was analyzed, and the best option is to reject the offer of leasing asset D because it costs more than buying asset D. Considering all of these relevant factors, the project will yield a positive NPV of $3,563,984, and an IRR of 6.60% for the 6 year project duration. Therefore, Bright Meals should pursue the project as it creates value for the firm’s shareholders.
EXECUTIVE SUMMARY

Bright Meals has a very “bright” future ahead of it, starting with the launch of Nashville Hot Chicken with Cauliflower Rice. By introducing this entree it has the ability to move into a new market that will hopefully lead to explosive brand growth. Utilizing the detailed marketing plan will help Bright Meals engage with customers in the heavily occupied frozen food space. Social media will play a fundamental role in this effort. In addition to external activities, the company must understand the internal operational implications of the project. Activities such as purchasing the right equipment, choosing the right suppliers and coordinating scheduling are integral to the success of the new product. With these changes comes changes to personnel as well. The project will be the most effective when all employees are on board, and the best way to encourage cooperation is for management to stick to the plan to help maximize employee satisfaction and productivity. With alignment between marketing, operations, and management, the project will be able to return a positive NPV and IRR, ultimately creating tangible value for the company. The following pages provide a detailed plan that will guide Bright Meals in the launch of its new product.
BRIGHT MEALS

MANAGEMENT

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Introduction

When Bright Meals first considered producing a new line of frozen food, it surely considered how a project this big would affect the company. The potential for this new project gives management an opportunity to make necessary changes to the structure of the company. These changes range from the installation of an entirely new position in each production plant to the motivation techniques of production workers. All of these changes are aimed at improving the company and will require a great deal of coordination and cooperation to do so. The management team at Bright Meals will set the tone for the entire company by setting clear guidelines on what they are looking for in potential employees and set a clear company environment. The job for management is a very tricky one. If they hire the wrong people for the position it could cultivate a toxic work environment, and the new Nashville Chicken with Cauli Rice dish will not take off. However, if it maintains clarity in its hiring and personnel strategy outlined in the following pages, then the product will have the best chance of succeeding under the new management structure.
Labor Forecasting

A project this big will certainly require increased production across both plant locations. Going through with the production of Nashville Hot Chicken with Cauli Rice is expected to increase unit sales by 6% per year in years 2-6 of the project. With this information, it can be assumed that total production by the company will increase at around 6% per year.

Bright Meals currently has 155 production workers in its plants at the start of this project. With increased production in the company, Bright Meals will be required to start hiring more production workers throughout the life of the project. With a projected 6% increase in production each year and the turnover rate at a stable 24%, Bright Meals should expect to have a total of 212 full-time employees after the first five years of the project. In the first year Bright Meals will need to hire 47 new workers to meet the production requirement. In the second year 52 new workers will be needed and 53 new hires will be required in the third year. Year four of the project will require 57 new production workers and in the fifth year Bright Meals should have to make 60 new hires. Factoring in the high turnover rate and increase in production each year, this will bring Bright Meals to the 212 full-time employees it will need by the end of the fifth year.

Production Supervisors

Adrianna Ray, Bright Meals’ Director of Human Resources, has decided to establish a new position at the company. She wants to incorporate a Production Supervisor to lead the team of production workers at each plant location. The first step in this process is finding qualified candidates for the position. The job description is attached (See Appendix) and Bright Meals will be focusing on three specific KSAOs in the hiring process. It is important that all candidates for the Production Supervisor role satisfy all of the required knowledge, skills, and abilities listed.
Production Supervisors Continued

First, it is vital that the candidate have knowledge in the Personnel and Human Resources department. Labor relations, training, and selection are all very important aspects of this job as the Production Supervisor will be responsible for tasks such as employee hiring and training.

Next, this position will require a great deal of coordination. The Production Supervisor at each location will report directly to the Plant Manager, as well as to the Director of Human Resources. It is crucial to be able to coordinate between the Human Resources department and production.

Lastly, one ability that will be focused on is deductive reasoning. This position will run into many problems over time, therefore it is important that the Production Supervisor be able to handle and solve these problems in the correct way.

Selection Plan

Part of the installation process of this position is deciding on a particular selection method. This will determine how candidates for the Production Supervisor position are selected. Bright Meals would be best suited using selection methods as detailed in following paragraphs, as these will be efficient and fair ways to judge candidates’ overall performance. Here is a brief look at how the selection process for recruiting a Production Supervisor will work.

First of all, a group of managers is needed to be a part of the recruiting team. After that, the KSAOs were identified as sufficient knowledge in the human resource and labor department, coordination ability, and deductive reasoning. Candidates will be judged based on these skills.
Selection Plan Continued

Then it will be necessary to search for the ideal candidates using online resources as screening tools. These resources are good tools because they are cost-effective and will work well as early selection methods to provide a large pool of potential candidates.

Furthermore, Bright Meals should use a structured interview process along with a personality test, job simulation and cognitive test for the candidates. Using these 4 methods can help Bright Meals better understand each individual in terms of their work attitudes and their personality. These indicate people's leadership styles as a supervisor, their ability to learn and their ability to use deductive reasoning. These tools have high scores in content-related validity, applicant reactions, and usability. Therefore, Bright Meals should implement these 4 methods for steps in the selection process.

Then, for the structured interview a scoring scale was developed for the candidates to evaluate the KSAOs identified. It is shown on the following page with detailed standards and expectation from the recruiting team.

Contingent tools such as phone calls to candidates' former superiors, colleagues, and background and educational checks will be used to make sure the applicant is officially qualified.
1-Poor: This applicant does not exhibit any qualities or abilities to demonstrate the designated KSAO. They do not demonstrate the necessary characteristics to succeed to the level needed within this company.

2-Below Average: This applicant exhibits some qualities or abilities to demonstrate the designated KSAO, but does not do so to the level required by the company. They demonstrate some necessary characteristics to succeed within the company, but would need more training than an average employee.

3-Average: This applicant exhibits an adequate level of ability and is able to demonstrate the necessary KSAO for this position. They will need an average amount of training and currently is not someone who the company should expect to go above and beyond.

4-Good: This applicant exhibits a superior level of ability and is able to demonstrate the necessary KSAO for this position. They likely will need a less than average amount of training and is someone the company can expect great work from.

5-Superb: This is an applicant who can be expected to perform at the highest level within this company and is fully able to demonstrate the necessary KSAO for this position. They likely will need minimal training and is someone who could start with the company today and have immediate success.
Performance Rating Scale

One change that Bright Meals would like to make is in how it evaluates employees. A Behaviorally Anchored Rating Scale will give evaluators concrete behaviors to look for in each employee. In the case of production supervisors, one skill that raters will evaluate is coordination among different departments. The scale will have the following values:

5-Outstanding Performance: Always and accurately relays vital information to all departments immediately
4-Excellent Performance: Always and accurately relays vital information to all departments, occasionally takes a day to do so
3-Average Performance: Relays vital information to some departments most of the time, but taking days to do so
2-Below Average Performance: Occasionally relays vital information to some departments but often does not
1-Poor Performance: Does not relay vital information to any departments

This type of scale takes most of the judgment out of the hands of the rater and allows them to simply place the production supervisor in one of these categories based on their concrete actions. One thing that must be taken into account with scales like this is reliability. A rating scale is reliable if the employee gets consistent scores no matter who is evaluating them. A simple way for Bright Meals to test this scale for reliability is to have at least three different raters evaluate each Production Supervisor when this system is first implemented.

Performance evaluation systems must also be tested for validity. A scale that scores high in validity is one that measures important aspects of the job. For Bright Meals, it should analyze the results of this rating scale by making sure that the supervisors who score well on this scale are performing well on a day-to-day basis. If its best Production Supervisors are getting the best scores, then this scale would be considered valid.
MANAGEMENT

Potential Pitfalls

The Production Supervisor position is a new one at Bright Meals and this will surely come with a brief learning period. One potential pitfall for this position is the chance that it may be lacking in task significance. This job is clearly an important one at the company, but there is potential that this person will feel the need to be higher up in management to really affect others in a positive way. The production supervisor position is set up to report directly to the plant manager on a daily basis and to the Director of Human Resources for personnel issues. While the production supervisor will be in charge of some personnel decisions, the Director of Human Resources has stated that she would like to move to a more central method of hiring and evaluating employees. This means more decisions would need to come from upper management and this is where the potential pitfall exists for the production supervisor. The best way to avoid this potential pitfall is to keep each production supervisor involved in all central personnel decisions. Keeping employees involved in decisions will greatly increase their personal task significance and keep them motivated.

On the contrary, there is potential that the Production Supervisor position may become unnecessarily difficult in the early stages of this process. The person in this position will have a lot on their plate with the training that will be required for the new equipment. Bright Meals will be dealing with equipment that is new to the company and this typically causes a brief period of confusion. It will be the Production Supervisor’s job to handle training of the production workers and this has the potential to be strenuous. For Bright Meals, one way to ease the strain on this position is to hire someone that is already somewhat familiar with the production processes at the company. Having someone that knows the company well in this position would go a long way in relieving pressure on the training duties.
Compensation Structure

The last thing that must be decided for the Production Supervisor is the compensation structure. It is recommended that Bright Meals establish a production goal at the beginning of each year for each supervisor. If the supervisor’s plant meets the production goal, that person will receive a bonus of 5% of their base salary. Furthermore, if the supervisor’s plant exceeds their production goal by at least 10%, then that person will receive a bonus of 10% of their base salary. This is a form of extrinsic motivation that will not be very costly for the company but could still be very rewarding for the employee. With this compensation structure, Bright Meals can expect to at least meet its required production levels each year, which is very important for this new project to be successful.

Production Workers

The production worker position is currently experiencing high turnover rates at each plant. This can be explained by the Job Characteristics Model, which shows why motivation is lacking among workers in this department. Production workers are currently placed at one specific point on the production line, where they spend most of their time. According to the model, a worker’s motivation is greatly increased when their job contains a variety of skills and they get to use all of their skills throughout the day, and not just in one area. Also, plant managers have heard rumors that the production workers’ jobs are not fulfilling. Task significance is a key to motivation and these workers do not feel that their job is very important, therefore motivation continues to decrease. Lastly, these production workers do not currently receive much, if any, feedback from their plant managers and this is another factor that stunts motivation among production workers. According to the Job Characteristics Model, the current production worker position at Bright Meals has very low potential for motivation.
McClelland’s Theory of Needs is another model that can be used to measure motivation. In order to evaluate the potential for motivation, according to this theory, management must first determine the primary motivating force that drives each employee to succeed. These forces include the need for achievement, affiliation, and power. It does not seem like management has arranged their employees based on each individual’s needs and therefore there is a lot of missed potential for motivation here as well.

The goal for management in this situation is to reduce the turnover rate, which would in turn reduce overall costs to the company. There are multiple ways to reduce turnover among workers and most of them start with increasing motivation. The first method to reducing turnover among production workers is job rotation. Instead of keeping production workers in one spot along the line, it would be wise for Bright Meals to train employees to work in different areas throughout the day. This would directly reduce boredom and increase motivation across the production staff. Another method for reducing the turnover rate is based around employee involvement. Production workers at Bright Meals do not currently feel like they have much of an impact at the company and installing a system of representative participation would be an effective way of giving these workers a voice. The workers would be represented by a union and would no longer feel out of the loop at their own company. A third turnover reduction method is called relational job design. As is mentioned above, these production workers claim that working at Bright Meals is not fulfilling and this really deters motivation. A way to help this is to let the employees see their finished products and the positive effects that they have on the company.
Bright Meals Culture

The culture at any company is shaped by the values that are shared among those inside the company. This is no different at Bright Meals. Ideally, Bright Meals would focus on a couple of values that drive its culture in a direction that greatly benefits the company. One of these ideal values that should be shared inside the company is stability. Bright Meals currently has a problem with employee retention and this is addressed previously with the methods of increasing motivation and reducing turnover. If successful, these methods would assist in creating a more stable culture at Bright Meals, with similar faces year after year. Another ideal value for Bright Meals to institute at the production level is attention to detail. Production workers will potentially be working with all new equipment and it is important that the training with the new equipment goes smoothly in order to save costs and stay up to date with the competition.

Now that the ideal shared values have been established, Bright Meals company culture can be determined. Companies use their culture to gain a competitive advantage in their industry, so it is important that the culture fits. With the values that have been established at Bright Meals, ideally the company would institute a market culture. In a market culture, the company would value stability and control, with an external focus on competitors. This is a perfect fit for Bright Meals as it works on developing its new frozen entree and continuing to expand in the frozen meal industry. This type of culture allows for more control over the people and processes in facilities, which will be needed during this new period of change. However, what defines a market culture is its external focus on the marketplace. It is important for Bright Meals to keep up with the progressive changes of their competitors. Bright Meals is currently in the second-tier of the frozen foods industry and in order to first climb to the top of that tier it must actively respond to any changes that Lean Cuisine makes. Once at the top of its current tier, Bright Meals could continue to focus externally and set its sights on Stouffer’s, the leader at the top of all frozen food companies.
Bright Meals Change

In this process of implementing a new healthier line of frozen food, Bright Meals will have to make a few changes within its company. These changes are not guaranteed to go smoothly. The first change that might be difficult to implement is the shift in the target audience. With the move to healthier cauliflower rice Bright Meals is also moving towards targeting the millennial demographic. Bright Meals currently has had success targeting middle-aged women and will need to change its marketing strategy to incorporate millennials, men, and women of a slightly younger age. The new marketing plan has taken this shift into account but it certainly will not go perfectly without a shift in the mindset of those at the company as well. The millennial demographic is much more health-focused and this is something that has been missing in the frozen food industry. Bright Meals must convince consumers that it is making a serious effort to provide health benefits in this new dish to be successful. With this change it can be assumed that people might resist this due to the fear of the unknown.

Employees will be faced with the fear of the unknown because they have spent their time at Bright Meals working with food that is not considered healthy and people will be unsure how to market and develop a product that is considered healthy. In order to implement this change, management should detail how this new product will affect their jobs, and be transparent about any potential negative impacts.

Another change that will be made at Bright Meals is in how personnel decisions are to be handled. In the past, Plant Managers at Bright Meals have always been responsible for recruiting and hiring production workers. However the Director of Human Resources has made it clear that she wants to shift to a more centralized process. Plant Managers will no longer be in charge of hiring their workers and this process will take time to implement.
This change will require a great deal of coordination between the Human Resources department and each plant location as it will be new to all who are involved. The plant managers and people who are involved in this change inside the company might be insecure about the change or choose to selectively process the negative information revolving around the new structure. These behaviors should be altered in order to implement the initiatives by providing motivation for change and rewarding desired new behaviors.

Lastly, in order to produce the new 14-ounce product, Bright Meals will need new equipment to work with in each production plant. This change will be difficult for the production workers as they learn to use new equipment. It will take patience from everyone involved in the training aspect of this transition.

When looking at the difficulty of shifting the target audience, a couple of suggestions could be made to ensure that it goes smoothly. First, it is clear that the implementation of cauliflower rice is a health-conscious decision. Bright Meals should continue to establish this position of health orientation in its marketing campaigns to secure the millennial demographic. Capturing the attention of the millennial audience will go a long way in making this shift smoother. Another way to grab the attention of millennials is through the use of social media. Having a strong social media campaign will resonate with millennials and they will be able to see the health-oriented changes that Bright Meals is making. The key to making the shift in target audience a seamless transition is completely capturing the attention of millennials, and using these two strategies is the best way to do so.
Appendix

Job Description for Production Supervisor

Lead a team that is responsible for preparing raw ingredients, assembling food products, packaging, flash freezing, and preparing for distribution. Responsible for personnel decisions such as hiring, training, and termination.

Tasks

- Enforce safety and sanitation regulations
- Direct and coordinate the activities of employees engaged in the production and processing of raw ingredients
- Plan and establish work schedules
- Inspect materials, products, or equipment to detect defects
- Conduct employee training in equipment operations
- Execute personnel actions, such as hiring, evaluation, and termination
- Serve as a link between management and employees by handling questions, interpreting and administering contracts and helping resolve work-related problems
- Perform difficult staffing duties, including dealing with understaffing, refereeing disputes, firing employees, and administering disciplinary procedures

Knowledge

- Personnel and Human Resources-Knowledge of principles and procedures for personnel recruitment, selection, training, compensation and benefits, labor relations and negotiation, and personnel information systems
- Production and Processing-Knowledge of raw materials, production processes, quality control, costs, and other techniques for maximizing the effective manufacture and distribution of goods
- Administration and Management-Knowledge of business and management principles involved in strategic planning, resource allocation, human resources modeling, leadership technique, production methods, and coordination of people and resources
Appendix

Skills

- Active Listening—Giving full attention to what other people are saying, taking time to understand the points being made, asking questions as appropriate, and not interrupting at inappropriate times
- Communicating—Talking to others to convey information effectively
- Coordination—Adjusting actions in relation to others’ actions
- Management of Personnel Resources—Motivating, developing, and directing people as they work, identifying the best people for the job

Abilities

- Deductive Reasoning—The ability to apply general rules to specific problems to produce answers that make sense
- Oral Comprehension—The ability to listen to and understand information and ideas presented through spoken words and sentences
- Problem Sensitivity—The ability to tell when something is wrong or is likely to go wrong. It does not involve solving the problem, only recognizing there is a problem
- Selective Attention—The ability to concentrate on a task over a period of time without being distracted

Education

- High School Diploma (or equivalent) required
BRIGHT MEALS

MARKETING

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MARKETING

Introduction

One key aspect in successfully launching the new Nashville Hot Chicken with Cauli Rice is making sure that people know all about it. It is imperative that consumers know that Bright Meals is transitioning from strictly selling unhealthy frozen foods and expanding into a healthier market. When deciding how to market Bright Meals to grocers and consumers, one of the most important and relevant facts to consider is the brand's strength within the market. A brand's image and strength are not something that develop overnight -- it often takes many years to gain the trust and respect of the industry and consumers. Bright Meals was started 26 years ago and has had great success using red, white, and blue packaging. It has already cemented itself into a number of grocery stores under a business model of comfort foods such as fried chicken and chicken tenders. In order to introduce its new Nashville Hot Chicken with Cauli Rice it needs to leverage its strengths within the market and adapt what it is currently doing well to cater towards a more health conscious group of grocers and consumer.
Competitive Landscape

Bright Meals is a strong player within the frozen food market. When compared to its top competitor, Stouffer’s, Bright Meals held 42.65% of the relative market share (RMS) in 2017. In numerical terms, Bright Meals did $221.2M in sales in 2017 whereas Stouffer’s sales amounted to $518.7M. While Stouffer’s is certainly the largest competitor within the market space it might be fairer to compare Bright Meals to a competitor in the second-tier market. When compared to the top-competitor in the second-tier space, Lean Cuisine, Bright Meals held 89.59% of the RMS. Lean Cuisine did $246.9M in sales during 2017 which was only $25.7M more than Bright Meals during the same year. The diagrams below break down the customers in the industry. In the page that follows a SWOT analysis outlines Bright Meals strengths, weaknesses, opportunities, and threats in comparison to its competitors.
## SWOT Analysis

### Bright Meals

**Strengths**
- Friendly and sensible player
- Progressive and socially conscious
- Highly reliable and fast production equipment
- National awards and a computerized supply chain process
- Low cost of capital
- High level of tax shield
- Ability to maintain the same suppliers
- Positioning towards long-term growth

**Weaknesses**
- Not currently considered a healthy dining option
- High in fats and calories
- A decline in industry growth between 2012-2017

**Opportunities**
- Health conscious dining
- New market for the new Nashville Hot Chicken with Cauli Rice Entree

**Threats**
- Existing competitors within the market
- Possibilities of change within the industry

### Lean Cuisine

**Strengths**
- Packaging redesign
- New television campaign
- Some meals emphasize no GMO’s
- “Weigh This” social media campaign
- Focus on “Modern Eating and Health Trends” (Adage)
- Gluten free options

**Weaknesses**
- Completely new marketing plans
- A decline in sales “in the past 2 years of 20%” (Adage)
- Shifting interests to fresh, non-frozen, foods

**Opportunities**
- New plan to not emphasize on the product as a diet brand
- Growth in sales to millennials for all frozen foods

**Threats**
- Changing market offerings
- The name “Lean” is often connoted with a diet
MARKETING

Brand Perception

When dealing with a retailer's perception of brands there are a number of factors that get analyzed before a product ever gets a place on the shelf. One of these factors is the relative market share of the product. The relative market share measures how well one brand is doing in comparison to another brand. Grocery stores will likely consider placing one product in their store over another if they believe that it will sell better because space is limited and expensive. The good news is that if a brand historically does well and makes a grocery store money they likely will keep it in their store even if its relative market share is smaller than other brands.

The relative market share for Bright Meals can be calculated against a variety of competitors. In this case, Stouffer’s and Lean Cuisine were chosen because of their respective strength in the top and second-tier markets for frozen foods. When comparing Bright Meals to Stouffer's it was found that the relative market share was 42.65%. This means that Bright Meals does 42.65% of the number of sales that Stouffers does. While this might seem like a low amount, the relative market share is meant to compare corporations to their largest competitor and realistically their largest competitor would be Lean Cuisine when examining the second-tier frozen food markets. Compared to Lean Cuisine, Bright Meals has a relative market share of 89.59%. This depicts the stark difference between the top and second-tier positions within the market. We know from this that Bright Meals is actually quite competitive within the second-tier frozen meal industry and it is likely that grocery stores will view it as such. As mentioned earlier, grocery stores want to incorporate brands that will make them the most money and satisfy their customers needs. It is clear from this figure that if Bright Meals is able to maintain or grow its market relative to Lean Cuisine and other competitors it will be able to cement itself within supermarkets for a long time.
Brand Perception Continued

**42.65%**  
Bright Meal's RMS relative to *top-tier* competitor

**89.59%**  
Bright Meal's RMS relative to *second-tier* competitor

Bright Meals should also note that having 42.65% of relative market share in comparison to Stouffer’s is nothing to scoff at. Despite the company having the status of a second-tier company it still is able to do over 40% of the business that a much larger company is able to complete. When approaching new retailers Bright Meals should consider focusing on the fact that it is able to control such a large chunk of the market relative to the biggest player in both the top and second-tier frozen market space. It is important to note that being the largest company with the top position in the market does not mean that new grocery stores will not look at the second-tier brands. In fact, many grocery stores may utilize the brands like Stouffer’s as a reference point in pricing which could allow Bright Meals fantastic opportunities within the marketplace.
Consumer Perceived Value is an important metric which greatly helps grocery store and customers decide on the product they want to buy. If a consumer believes that they are receiving less benefit then the perceived cost then they likely will choose not to purchase an item. Ideally, Bright Meals would like the CPV to be as high as possible for the consumer. It should aim to do this by maximizing perceived benefit and trying to minimize perceived cost.

The current cost for Bright Meals to produce one entree is $2.20. To maximize the CPV Bright Meals would likely want to price its entrees at similar prices to other competitors within the market. The typical cost of an average frozen entree is around $2.50 for a 9.5-ounce package. Since Bright Meals is proposing meals be sold in a 14-ounce package, it is likely that consumers would rationalize spending more money on a larger portion of food.

Using a ratio of 14/9.5 and multiplying that ratio by the cost of a typical 9.5-ounce entree an expected price for a 14-ounce entree of $3.69 is reached. Since the product would be sold at a price of $2.20 then it could be said that the customer perceived value would be $1.49 per entree purchased. The new product is projected to have a demand for the first year of 24.5M units. This means that over $36M dollars worth of customer perceived value could be created, and the company is still able to make a decent margin on each entree sold.
MARKETING

Value Proposition

The marketing team took 6 steps to create the new product's value proposition.

**Define the target audience.** The first step involves defining the target audience. As noted earlier, the segment that has granted Bright Meals the most historical success has been mothers between the ages of 28-42. Recently, however, due to changing interests within the frozen food market a recent survey found that the average consumer of frozen entrees was a male between the ages of 22-55 who made more than $40,000 in annual income. Additionally, something that came as a shock to many frozen meal providers was that millennials have begun embracing frozen foods more recently in 2018 seeing as the volume purchased grew for the first time in five years.

**Know the competitors.** The second step when creating a value proposition focuses on getting to know your competitors. Bright Meals is well aware that it isn't the only player within the frozen food market and by integrating this new cauliflower based rice it will be able to greatly differentiate itself from other brands within this category. Lean Cuisine has stated that it is distancing itself from focusing on its product as a diet and instead focusing on healthier ingredients. This new cauliflower rice will allow Bright Meals to offer a product in a similar category that has healthier ingredients without being a diet product. It helps to ensure that Bright Meals maintains (and hopefully increases) its market share.
Define the needs the product meets. The third step in creating a value proposition is about finding out what needs the product meets. This new Spicy Nashville Chicken with Cauli Rice will help fulfill two main needs. The first and most important need that it satisfies is the ability to keep up with changing customer preferences. Cauliflower rice has become increasingly popular recently. In fact, when Trader Joe’s began stocking the new specialty rice it had to institute a policy limiting the amount people could buy because it was so popular. Adding this new product is likely to draw attention to shoppers when it is placed around all of the other frozen foods that do not include this same ingredient. The second need that the product meets is minimal change in the current production. This product will be produced in a 14-ounce serving size which is different than our typical 9.5-ounce serving portion. The decision to purchase new machinery will allow Bright Meals to continue producing its 9.5-ounce products as well as the new 14-ounce product. This also allows the company a safety net in the event that the new Spicy Nashville Chicken with Cauli Rice is not received as positively predicted.

Dispel myths. The fourth step revolves around dispelling myths within the industry. This may seem like an easy task, but in recent years many people’s tastes have shifted away from frozen food towards fresh food because of the perceived notion that the quality of frozen is inferior to that of fresh food. Bright Meals has decided to dispel this myth primarily through social media by choosing to focus on frozen food as a more convenient option as opposed to something that is less healthy or fresh than other products on the market.
Create a clear mission and message. The fifth step of creating a successful value proposition regards having a clear mission and message. The company may want to consider doing test runs in select markets to see how the product is perceived and figure out if this type of product appeals to the typical audience or an entirely different group. Bright Meals has noted that its message when delivering this new chicken product is not meant to replace the level of spice that a consumer would receive in a typical fresh Nashville Style Hot Chicken sandwich. The company has instead decided to focus on maintaining a moderate level of spice which is likely to satisfy people seeking “enough kick.” This is an important positioning message because it does not set the consumer up for unrealistic expectations and instead informs them of exactly the quality product they will be receiving. Instead of being upset about a diminished level of price a rational consumer would recognize that the level of convenience makes up for any difference they would get in another sandwich.

Bring it to life. The sixth and final step of a positioning statement is by far one of the most important as it deals with bringing a product to life. Bright Meals already has had success using bright colors in its packaging and creating a brand that consumers really enjoy and want within their homes. In order to create the same life for this product, Bright Meals would be wise to create new packaging that focuses on defining the new benefit that the new Spicy Nashville Chicken with Cauli Rice is able to offer the consumer in a fun creative way. It should consider using green to symbolize the healthiness of the cauliflower rice and red to draw attention to the spice in the Nashville hot chicken. By developing tastings in certain grocery stores or putting out new advertisements focusing on the innovation the product offers it will likely be able to garner new attention from a variety of consumers, including the existing target market. Bright Meals should not simply treat this project like any existing entrees. It is a new, innovative idea and if it is able to focus on that then it is more likely to differentiate itself from competitors.
MARKETING

Positioning Statement

When creating a positioning statement for a company it is important to remember the customer comes first -- without them your company does not exist. The most important question for a company to ask is “Who is the target audience we want to reach with this product?” As noted above the original target demographic for Bright Meals was mothers between the ages of 28-42 who were looking to provide meals for their families. Recently the demographic for the overall market has shifted to favor men aged 22-55 and millennials. While the original target market may have worked well in the past it is always important for a company as large as Bright Meals to stay on its feet and adapt to changing trends. This does not mean that the original demographic is not important, rather, it is simply less of a focus than it once was. In general, millennials are drawn to healthier alternatives when it comes to eating food at a restaurant or purchasing from a supermarket. Bright Meals ideally would like to position itself as a company that targets millennials of both sexes. This is important because it works well to target any individuals ages 24-38. This allows Bright Meals to focus on the existing market of young mothers they have had so much success marketing to, while also incorporating other young men and women into its plan.

Bright Meal's positioning statement needs to focus on its target demographic, what the company does, and how to best serve consumers. An accurate positioning statement for the company might be phrased like this “The Freshest Food, Frozen.” This positioning statement is short but encapsulates the overall company message in a way that caters to the audience it is trying to capture. If the target customer is able to recognize that the food is still very fresh, just frozen for convenience, it will greatly help to dispel any myths about frozen food being filled with preservatives. This statement also relays the message of quality to Bright Meals end customer.
The product positioning map pictured below compares a variety of frozen entrees on two metrics: price, and quality. The map is easily understood by any consumer and will be a valuable tool to help sales representatives communicate the quality of a product versus the price. In the lower left-hand quadrant, Hungry Man is visible. The focus of hungry man is on portion sizes and cheap pricing which puts it into this lower quadrant. Stouffer’s classic entrees fall into a similar category along with Lean Cuisine, Marie Callender's, and Bright Meals typical entree. These products are of an above average quality at average or slightly below average prices meaning they offer good value for the consumer. Stouffer’s also occupies the top right quadrant along with Healthy Choice, both of which offer a healthier or organic product that is priced higher than other competitors. This higher pricing is also likely justified by the quality of the product and may act as a reference price for the other entrees offered. Finally, on the right upper quadrant is Bright Meals new entree which was placed here due to the higher quality of ingredients and the price of $2.20 which is more expensive than some average entrees, but cheaper than other premium competitors. It was also placed in this quadrant because the amount of CPV is fairly high and thus it would be fair to be a slightly more expensive product. This likely will be attractive to consumers looking for great quality frozen meal that they associate as with high quality based on the price.
MARKETING

Retailers

Using a combination of internal sales and external brokers, Bright Meals has the opportunity to reach several retailers. Currently, the company sells its products primarily through supermarkets. It also uses 7-Eleven and Speedway as distributors on a much smaller scale. Given the proposed price skimming strategy that supports Bright Meals transition towards healthier (and more expensive) products, it should reevaluate its current positioning. First, it may consider eliminating its presence in retailers such as 7-Eleven for the new product. Health conscious brands are not typically associated with gas stations, and attempting to pursue this new strategy while remaining in lower tier retailers sends consumers mixed messages about quality.

Bright Meal’s main distribution should remain within supermarkets such as Kroger, Walmart, and Target. The Nashville Hot Chicken with Cauli Rice certainly has its place in these retailers. However, the company may consider gaining a presence in more health conscious grocers as well, including Trader Joe’s, Fresh Thyme, and Sprout’s. These retailers are known to promote healthier foods, and one of Bright Meal’s goals is to be transparent regarding its healthier ingredients. Presence in these stores can help Bright Meals achieve the modest rebranding it seeks. By combining its positioning in traditional grocery stores with that of more health conscious retailers, the company can begin to establish itself as a healthy, frozen option.
MARKETING

Distribution

Bright Meals currently utilizes a mixed approach to reach retailers, employing both an internal sales team and external brokers. Each method has unique strengths and weaknesses, and by identifying these factors Bright Meals can better strategize for the launch of its new product.

The internal sales team within the company holds several advantages including expertise and process control. Regarding expertise, the sales team inherently has a more in-depth understanding of the new product launch. This offers the team a unique edge when selling to retailers because they can pitch not only the new product but the story behind its inception. Furthermore, in-house sales teams allow Bright Meals to be more in control of the sales process, as it can monitor, evaluate, and modify its sales-force’s methods.

When using an independent broker, the company must be more hands off. This can be a disadvantage for Bright Meals if the brokers are not delivering the correct message about the product. If their sales methods are weak and not producing relationships with retailers, then Bright Meals is incurring an unnecessary cost by paying them. However, brokers can provide a competitive advantage in terms of access to retailers. Experienced brokers will maintain relationships with a range of retailers -- perhaps retailers that Bright Meals does not currently have access to. This will allow Bright Meals to connect with more stores.

<table>
<thead>
<tr>
<th>Summary</th>
<th>Internal Sales Team</th>
<th>Independent Broker</th>
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<tbody>
<tr>
<td></td>
<td>✔️ Expertise</td>
<td>✔️ Network of retailers</td>
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<tr>
<td>✔️</td>
<td>Control</td>
<td>✗ Added expense</td>
</tr>
<tr>
<td>✗</td>
<td>Limited retail contacts</td>
<td>✗ Less control</td>
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When instituting a new product into a marketplace the price of the product determines almost everything, from the placement to the overall customer perception of the brand. Bright Meals is instituting a new product into a category it previously has not had a lot of experience in: the healthier alternative category. The cauliflower rice especially will be something new within the frozen food category and thus will likely be eye-catching to consumers if it is marketed correctly. Bright Meals may want to consider using a skimming pricing strategy to determine if pricing its product higher than competitors might draw more attention to it and thus cause more sales. If this skimming strategy works well it will allow Bright Meals to make more money on its product and also get a better idea of who is purchasing its products at what price points. A skimming strategy is also especially useful because people notice if a price is set much higher than others and they also often associate higher price with higher quality.

Price promotions will play into this a great deal if the company decides that the initial price is set too high to keep up with consumer demand. It may want to consider using advertisements in grocery store flyers as well as other storewide price cuts if they find sales are sluggish. Another price promotion would be to offer existing customers of healthier frozen meals from competitors coupons to potentially incentivize them to try the new product. Bright Meals might want to consider using minimal coupons or pricing promotions during the beginning of the product's life in order to best follow through with the proposed skimming strategy. Instead, it may be wise to gauge initial perception and then adapt using price promotions as necessary, especially if competitors are using them as well. This vision of minimal price promotion and skimming matches up very closely with CMO Molly Chang's vision, which is that it is much easier to lower a price than it is to raise it. Starting with a high price leaves more opportunity to create better margins for Bright Meals.
Pricing Promotion Continued

The HBR article “If Brands are Built over Years, Why are they Managed over Quarters?” discusses the idea that companies are too focused on short term profits earned through promotions and discounts. These methods are overused as a means of achieving profitability, and have a detrimental effect on brand equity. When customers notice that a product is constantly on sale, they will rarely purchase it at full price. Therefore, while promotions boost sales in the short term, they erode baseline (full price) sales which hurts the brand as a whole.

There are three key reasons that explain why companies are tempted to pursue promotions. First, short term data about sales is available quickly and in a large amount. With the emergence of scanner data, it has never been easier to monitor what is purchased, by whom, in what quantity, and for what price. This data often paints a picture that sales increase when a product is discounted. While this is true in isolation, it does not always indicate the profitability of a promotion when combined with data regarding baseline sales. Constant promotions associate the product with price in the mind of the consumer. This reduces brand loyalty and erodes brand equity.

Second, the effects of longer term advertising efforts are far more difficult to measure. However, in contrast to short term promotions, these strategies often reduce price sensitivity and build brand equity. The product becomes associated with quality, not price. Third, companies feel pressure from Wall Street to perform in the short term. Every quarter, public companies must release short term metrics that executives are judged on. This in itself encourages price promoting behaviors as poor performance in these short term areas are viewed as a reflection of management.
MARKETING

Pricing Promotion Continued

Taking into consideration the detrimental effects of a short term focus, Bright Meals should focus on its long term marketing efforts in order to build brand equity. To do this, the company should closely monitor two metrics: baseline sales and consumer responses to price promotions. By tracking the sales of full priced products, Bright Meals can gauge how price sensitive its customers are. Measuring the response to promotions will allow the company to understand its perceived brand equity -- if consumers only buy when the product is discounted, they are buying for the price, not the product. If management can have a strong understanding of where Bright Meals stands in both of these areas, it can adapt its strategies as needed.

In addition to simply monitoring certain data points, Bright Meals should also invest in long term marketing efforts. While initial price promotions such as coupons can be a viable way to spark interest in the new product, it should also develop a comprehensive strategy in the form of an integrative marketing communications plan (IMC). The details of this plan, which will focus on the long term success of the product, are discussed later on.

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**Summary**

**Focus on:**
- Baseline sales
- Customer responses to promotions
- Long term marketing efforts

**Do not focus on:**
- Misleading scanner data
- Short term price promotions
MARKETING

Pricing Promotion Continued

The HBR article "How to Stop Customers from Fixating on Price" outlines four pricing strategies that Bright Meals may want to consider.

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Description</th>
<th>Bright Meals Application</th>
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<tbody>
<tr>
<td>Use price structure to clarify your advantage</td>
<td>Price the product based on the value it offers the consumer</td>
<td>Bright Meals should focus on the fact that it is producing a larger meal than the majority of competitors and using ingredients that are different than other competitors like cauliflower rice which will allow it to show consumers why its product has value in comparison to alternative brands within the same market.</td>
</tr>
<tr>
<td>Willfully overprice to stimulate curiosity</td>
<td>Raising the prices to draw attention to the product, as price is typically closely tied to product quality</td>
<td>As proposed in the marketing plan above it is suggested Bright Meals stick with the vision of CMO Molly Chang and overprice the product to assist with the skimming marketing strategy and offer room to lower the price if necessary. As Molly had said it is far easier to lower the price than it is to raise the price.</td>
</tr>
<tr>
<td>Equalize price points to crystallize personal relevance</td>
<td>Setting all comparable products in similar product lines to the same price</td>
<td>This may not be relevant for the initial product launch, but if the new product is successful it is likely that Bright Meals will come out with other comparable entrees. Pricing these at the same level will encourage customers to decide which product is best suited for them based on the value it offers, not the price for which it sells.</td>
</tr>
<tr>
<td>Partition prices to highlight overlooked benefits</td>
<td>Break the product up into parts and price accordingly</td>
<td>This strategy is not relevant for Bright Meal's current products. It could be utilized in the future if the company decided to sell sides and entrees separately.</td>
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When creating an IMC plan to announce the new Nashville Hot Chicken with Cauli Rice to retailers Bright Meals will want to focus heavily on the idea of innovation. This new entree while similar to some of the other products it produces has two main distinctions: sizing and a new, healthier focus. The size as discussed will be a larger 14-ounce product which will certainly be a talking point among retailers considering the majority of other frozen meals are smaller. The second talking point that will be incredibly valuable when marketing to grocery stores is the introduction of the actual product itself. Trader Joe’s, which has had previous success selling cauliflower rice, will be one target for this IMC. This new entree would allow Trader Joe’s to add an additional product in the cauliflower rice category which likely would lead to more success. Since Bright Meals is participating in a skimming marketing strategy, advertising will play a very important role in impacting overall sales. It is suggested to use a highly intensive advertising strategy when using a skimming plan because Bright Meals wants to raise as much brand awareness as possible. It can do this through modest promotions in order to receive the most sales at a higher price.

Bright Meals should consider using a variety of strategies to best cater to the needs of retailers. It should consider sending merchandise advertising of the new product to Trader Joe’s and other grocery stores to get the product image into the minds of retailers. Bright Meals should also bring its product to trade shows and utilize a colorful booth to attract as much attention as possible to the new product. It should also consider using public relations, such as contacting news stations in areas where major grocery chains are headquartered. Finally, Bright Meals will want to approach whatever grocery store it visit with a detailed plan about how it wants to market within the store. Bright Meals could offer to have its product sampled within certain stores for free, which is likely to entice companies to offer its product in store.
Communication Strategy

When creating a communication strategy the most successful brands are those that utilize all of the great characteristics of a marketing plan. These include a repeatable theme, a word hook, a distinct design aesthetic, and a character hook. When thinking about Bright Meals and its new Nashville Hot Chicken and Cauli Rice all of these characteristics are completely feasible and can be easily incorporated to make a successful plan. Bright Meals might want to consider using the two figures below as its main characters to market the new product. This animated cauliflower which is aptly named “Cauliman” is certain to be something that sticks in the head of consumers. The animated spicy chicken will be named “Spicy Nash” and this would be another fun way to market the brand. Together these two character could go on recurring adventures where Bright Meals could utilize social media where customers would vote on the activities the two characters could partake in.

Bright Meals might want to consider using word hooks like “It's Rice-Arific!” and the “The Spice is Right” so that customers are able to further understand how great this new product is. Finally, the color scheme should remain constant utilizing colors like green to symbolize freshness and red to symbolize the spiciness in the Nashville Hot Chicken. Utilizing these marketing hooks will lead to the best overall outcome when creating the campaign and hopefully cement the idea that the new product is innovative, exciting, and fresh.
Website Design

There are two simple website layouts suggested for Bright Meals. The first is a simple bubble diagram and the second incorporates a stock photo where the company could place photos of its new dish. Both are viable options and utilize the new color-scheme suggested for the New Nashville Hot Chicken with Cauli Rice.
Social Media Recommendation

Bright Meals should utilize Snapchat, Twitter, and Instagram to reach millennials, its target consumer group.

**Instagram**

Bright Meals should create an Instagram account for its new characters. On this platform the company can post its adventures of Cauliman and Spicy Nash. Instagram is the most used social media app by millennials, and they will be able to like, comment, and share the new product’s commercials.

**Twitter**

Twitter will serve as the platform for submission of new commercial ideas. By using the hashtag #CauliTime, users can submit their new ideas for videos. This encourages further engagement with the new target audience. Once submissions are made, Bright Meals marketing team will choose the winning idea and create content based on it.

**Snapchat**

Creating a Snapchat filter is another way to immediately spark interest once the product is launched. Users can take pictures and swipe to find the Cauli Nash filter. They can then send the picture with the filter to their friends to generate even more buzz about the new product. The filter features the characters of Cauliman and Spicy Nash and once again the hashtag, “#CauliTime.”
MARKETING

Social Media Recommendation

**Instagram**

Liked by frozenfoodlover and 250 others
SpicyNash&CauliMan in this user requested episode of the Adventures of Spicy Man and Cauli Nash, the pair defeats Side Peas and Corn in a delicious victory! Submit your ideas for their next adventure using the hashtag #CauliTime... more

View all 85 comments

Add a comment...

**Twitter**

SpicyNashFan
@NashSpicy

For the next Adventure of Spicy Man and Cauli Nash, I want to see who would win in a fight: Spicy or Cauli? My money is on the chicken.

#CauliTime

12/1/18, 2:05 PM

View Tweet activity

**Snapchat**

It's #CauliTime
Bright Meals has a huge opportunity to have a successful viral marketing campaign. As mentioned above, Bright Meals could utilize a social media campaign where they have consumers vote on what adventures they want “Spicy Nash” and “Cauliman” to go on. Old Spice had a similar marketing campaign that turned out to be successful. Allowing people to have a voice in this new product will help Bright Meals develop brand loyalty. Also, this strategy will save Bright Meals money, by allowing the consumer to help dictate the marketing campaign Bright Meals can save on marketing costs. Overall, Bright Meals can save a lot of money by employing a digital marketing strategy versus a traditional marketing strategy.

Ads on Facebook, Instagram, YouTube, etc, are a lot cheaper than your typical TV commercials or newspaper ads. For example, ads on YouTube typically cost ten to thirty cents a view, which means an ad that was viewed 10,000 times would cost Bright Meals anywhere from $1,000 to $3,000 (Blue Corona). However, a local 30 second TV commercial typically costs anywhere from $200 to $1,500 and a national 30 second TV commercial costs about $123,000 (Fit Small Business). As one can see, digital marketing is a lot cheaper because you typically only pay when people view or click an ad. Using a new digital marketing campaign over traditional marketing approaches will be more beneficial to Bright Meals than just saving money. Digital marketing will allow Bright Meals to specifically target the demographic that it is after versus hoping its target demographic sees a TV commercial or reads a print ad. Furthermore, utilizing digital marketing will enable Bright Meals to create a constant information loop where consumers can give Bright Meals suggestions on how to improve this new product and Bright Meals implements the most popular suggestions.
I-CORE CASE

Works Cited

*note: only for the marketing section


OPERATIONS

Introduction

The operations team and their decisions are the lifeblood of having a successful product launch. The other departments at Bright Meals can do the best work possible, but if the operations team cannot produce the Nashville Hot Chicken with Cauli Rice efficiently with little to no quality issues, the product will fail. Everything the operations team does impacts other departments. For example, choosing one aggregate production plan over another can drastically change how many people management needs to hire or fire. Making that same decision also changes the inventory level which will affect the assets in the finance team’s balance sheet. Furthermore, the quality at which operations creates the new product will directly affect the customer perceived value. The higher the customer perceived value the more money they will be willing to spend on the product. If the whole company is a human body, then the operations side is the heart. It pumps blood into the whole body, and if the heart is damaged then the whole body will be affected. Bright Meals should make a concerted effort to make sure the operations of the new product run as smoothly as possible to keep the project running.
Project Management Schedule

Bright Meals cannot achieve a new product launch in 19 weeks based on the wide variety of tasks that need to be performed. After drawing the corresponding network diagram, there are four paths in the diagram: path AGHJOP requires 17 weeks, AFIJOP requires 13 weeks, BCDEFIJOP requires 25 weeks, and BCDKLMNP requires 22 weeks (See Exhibit P1.1). In this situation, the minimum duration of the project depends on the longest path in the diagram which is the critical path. However, the critical path is 25 weeks long, therefore Bright Meals is not able to launch the new product in 19 weeks without crashing this path. Also, before producing the new product, Bright Meals needs to purchase new equipment to adapt to the new size container required for the Nashville Hot Chicken with Cauli Rice. This changes the duration of activity H, installation of new equipment, from 6 weeks to 8 weeks. This is because we decided to purchase new equipment, which takes 8 weeks, instead of modifying existing equipment to accommodate the packaging for the new product. However, this does not change the overall length of the project since H is not on the critical path.

Our recommended schedule for Bright Meals is 19 weeks. The critical path for all the tasks need to be performed is 25 weeks. Therefore, Bright Meals has to crash the activities which are on the critical path six times to reduce the duration of the project. In this case, we assume that Bright Meals does not consider an administration cost and whether there are cost savings since it is crucial for them to launch the product in 19 weeks to deal with high sales possible in the peak season. While crashing the project, Bright Meals needs to crash the activities in order of F, F, E, EM, P, and B, and the total crashing cost is $28,500 (See Exhibit P1.2). By now, there are two critical paths which need 19 weeks to achieve the new product launch. Furthermore, see exhibits P1.3 and P1.4 for Gantt charts for both the original project before crashing and for the final recommended schedule after crashing.
Equipment Decisions

There are two possible solutions for Bright Meals: to adapt to the new 14-ounce container, by modifying an existing equipment line, or by purchasing new equipment. The best option for Bright Meals to produce a new 14-ounce container is by purchasing new equipment. Modifications will require three weeks and can either be done in-house or by hiring an outside firm. Purchasing and installing new equipment will require eight weeks. Bright Meals can come to the conclusion that purchasing new equipment is the best option by using the possible states of nature, probabilities, cost, and by making an easily understandable decision tree to determine the best course of action (See Exhibit P2.1)

The decision tree determines the expected cost of each decision which is $620,000 to perform in-house modifications, $572,000 to hire from an outside firm, and $575,000 to purchase new equipment. Although hiring from an outside engineering firm would be the cheapest among these three options, purchasing new equipment would be the best course of action for Bright Meals. This is true because demand for the product in year 1 will be 24.5M which will require a higher capacity to produce enough products to meet consumers needs. Therefore, with new equipment, the two plants will have a larger capacity than with a modified existing line, which can successfully meet the estimated demand and is able to deal with unexpected changes in demand for year 1.
Equipment Decision Continued

From a long-term perspective, purchasing new equipment has more advantages since this new equipment will be able to switch from one size to another quickly and at a low cost. In this situation, Bright Meals does not need to make another equipment decision which would cost lots of money if there is a new product that has a different size container in the future. Also, although the purchase and installation of new equipment (Activity H) will cost eight weeks of time, it will not add more weekly administrative cost since Activity H is not on the critical path and will not affect our final recommended schedule. Furthermore, purchasing new equipment is only $3,000 more expensive than hiring from an outside firm; thus, the advantages far outweigh the disadvantages in this case. Therefore, purchasing new equipment is the best action for Bright Meals with the objective of minimizing cost.

Evaluating Suppliers:

Order Policies:
The ordering policies are shown in exhibit P3.1. An assumption that our team made when calculating the order policies is that the price per ounce of cauliflower given is actually price per pound. Also, we assume that there are 6 ounces of cauli rice per package. This assumption was made because the price of the whole meal is $2.20 and it only contains six ounces of cauli rice, so the range of $2-$2.50 for one ounce of cauliflower from a prospective supplier does not make sense. Therefore, our calculations are based on this assumption, cauliflower demand, and the cost of capital, which is 4.89%. For cauliflower demand, the first year demand of 24.5M was multiplied by 6 (ounces) and then divided by 16 (ounces) in order to get the cauliflower demand in pounds. Then the demand for cauliflower would be 9,187,500 pounds.
Based on Exhibit P3.1, from a purely economic ordering perspective our team recommends that Bright Meals go with the Midwest Farms as a supplier. This is true because Midwest Farms has the lowest annual total cost among these three suppliers at only $18,384,339.69. However, Bright Meals also needs to consider the different lead times of these three suppliers since lead time also contribute to costs. This is important because if sales are greater than expected, then Bright Meals would not have to waste as much time waiting for its cauliflower to arrive which could result in lost sales. For instance, although Southeast Supply Corp is not the cheapest option, it could potentially save the most amount of money when one considers the spoilage potential of cauliflower. The short lead time enables Bright Meals to get a fresh shipment of cauliflower quickly in case a shipment is partially spoiled.

With shorter lead times it is implied that you receive smaller quantities than you would with larger lead times. If you are receiving less, than your holding costs will be reduced. However, one would most likely have to order more with shorter lead times which would increase purchasing costs. Lead times also affect other departments. For example, if you do receive less from a supplier with a small lead time then you will have less inventory which would reduce assets on the balance sheet and affect the finance team’s numbers. Furthermore, lead times affect management because depending on the quantity received it could affect the amount of employees that would be hired or fired to process the shipment.

**Supplier Quality:**
All three of the suppliers have one or more test sample(s) in which the processes are out of control, as shown in Exhibit P3.2-P3.4. However, we recommend Bright Meals exclude Midwest Farms from considerations and recommend Bright Meals instead work with Southeast Supply from a quality perspective.
While making these control charts, we first calculated the upper limit, average (x-double-bar), and the lower limit of the in control sample provided by each supplier, and then use the in control sample data to analyze test samples for each supplier, but with different x-bars. Take Midwest Farms as an example. First we calculated the upper limit, x-double-bar, and the lower limit of Midwest Farms’ in control sample which are 5.44, 5.21, and 4.98 and calculated the x-bar data for each test sample. Then we made the control charts of each sample by using the same data of Midwest Farms in control sample data and the different test sample x-bar data.

As exhibit P3.2 Midwest Farms Control Charts shows, there are five consecutive points above the central line for test sample 1 which means the process is out of control. Also, for test sample 2 there is a single sample statistic that is outside of the control limits and for test sample 3 the x-bar is completely above the upper limit which also means it is out of control. Furthermore, the in control sample provided by Midwest Farms is actually out of control since the last five consecutive points are above the average. In this situation, the three test samples of Midwest Farms and "in control" sample are all out of control; therefore, we can exclude Midwest Farms from considerations.

As Exhibit P3.3 Pacific Produce Control Charts shows, test sample 1 has five consecutive sample statistics below the central line which is out of control and test sample 1 is in control.

As exhibit P3.4 Southeast Supply Control Charts shows, test sample 1 and 2 are both in control; however, the x-bar for test sample 3 is above the upper limit which means it is out of control.
In this case, we recommend that Bright Meals should work with Southeast Supply Corp since although Southeast Supply Corp’s Test Sample 3 is out of control, it still below the typical spoilage rate of 10% and the x-bar line seems more stable compared to Pacific Produce Test Sample 1 which is also below 10% and out of control. Moreover, Southeast Supply Corp has three test samples and two of them are in control while Pacific Produce has two test samples and one of them is in control. Thus, Southeast Supply has more data and information to prove that its process is more in control than Pacific Produce.

**Final Choice:**

With all factors considered, our team recommends that Bright Meals should hire Southeast Supply Corp. The first reason we believe that Southeast Supply Corp should be hired is because they have the second lowest total annual cost with the smallest lead time of all three suppliers. As our team mentioned before, there are a host of advantages that comes with a short lead time, especially when it comes to a product like cauliflower where spoilage is expected. The short lead time with the smaller Q is beneficial because if the cauliflower spoils then Bright Meals would not have tied up more cash in a defective product and it could get replaced quicker. Furthermore, the short lead time is advantageous in case the product exceeds projected demand and more orders need to be met. Another reason Southeast Supply Corp was chosen is its supply quality. Based on the charts provided, one could see that its quality is more in control than the other two suppliers. Looking at the order policies, the impact of a short lead time for this kind of product, and the quality control, Southeast Supply Corp is the clear winner.
Operational Considerations

The first step in the operations process is to communicate with the entire organization to figure out key aspects of the product. Communication with the finance department is critical to figure out the margin the organization is targeting, and communicating with the marketing department is important to figure out the packaging that best fits the target audience. The operations department needs to understand Bright Meals’ plan very well in order to execute it effectively and efficiently.

The next step in the operations process would be to formulate a plan with project management. The implementation of the project is slated to be 25 weeks. However, Bright Meals feels that it is imperative that the new Nashville Chicken with Cauli Rice be ready to launch in 19 weeks in order to be ready for the high sales during the peak season. In order to achieve this goal, the operations department would have to develop a schedule and determine the critical path of the project. Then they would have to crash the cheapest objectives of the project along the critical path until Bright Meals reaches its target date, they deem it is too costly to keep crashing, or they cannot crash the project anymore.

Another operational detail that Bright Meals needs to be aware of is determining the process flow structure. For the new Nashville Hot Chicken With Cauli Rice, Bright Meals may want to consider employing an assembly line process flow structure because of the high volume they want to create. Then to develop the new meal Bright Meals will use the traditional four stage product design process. During the product design process, Bright Meals may want to use concurrent engineering, as the production design process traditionally takes a lot of time and concurrent engineering will allow them to develop the product faster. Other things the operations team may want to consider so they can fully meet their customer’s needs are industrial design and they want to make sure they use a quality function deployment during product development.
Capacity management is a crucial operational detail that Bright Meals needs to have a well developed plan for. If Bright Meals does not have a well developed plan it will affect its ability to meet consumer demands. Furthermore, not being able to implement effective strategic capacity planning will definitely have an impact on the firm as it will hurt a number of aspects including: response rate, cost structure, inventory policies, and labor requirements. Having a well developed capacity management plan will also enable Bright Meals to fully understand how it should best operate in order to be as efficient as possible. Moreover, as they keep producing more product, Bright Meals can anticipate a drop in its production costs and an uptick in quality which can help to greatly benefit the company.

In order to be efficient and maximize profit, Bright Meals should have a well coordinated aggregate production plan as turnover is 24% and storage will likely be expensive. Bright Meals should implement a chase plan to keep costs as low as possible for the company. In this plan Bright Meals will hire or fire just enough employees to meet monthly demand. This plan should be coordinated with both the management and finance teams in mind. Management needs to know the best way to manage employees when they know that personnel levels could change depending on demand. The finance team needs to know the monthly hiring and firing costs so they can be accurate in discussing Bright Meal's financial status.
It is imperative for the Bright Meals’ operations team to have a strong inventory management system if the new Nashville Chicken with Cauli Rice is to be successful. Proper inventory management ensures that materials will be available when needed, and failure to meet demand can be very costly. The keys to having a good inventory management system boils down to knowing when to buy inventory and how much inventory they should buy. If Bright Meals can answer those questions correctly then it can insure that customer demand is met while minimizing costs. It is also important that the operations team consults with all the other parts of the organization when considering its inventory strategy. In figuring out the optimal quantity the finance team needs to give the operations team the cost of capital so it can figure out the annual per unit carrying cost percentage. The marketing department needs to know if there is excess inventory so it knows when to offer promotions to help alleviate the extra inventory. Inventory management is critical in the operations process. Knowing this, Bright Meals could have the best product in the world, but if it cannot manage its inventory well then it will either lose money by not meeting customer demand or by creating too many units.

No consumer wants to buy products of lesser quality and that is why quality management is also an important thing to consider for the operations team. The most crucial aspect of quality management is to make sure that the customer views the product as high quality. This is because a consumer will pay more for a product if they perceive the quality is high. The quality of the product will also directly impact the finance team and the company as a whole in the event of a product defect which could cause a costly product recall. In order to ensure quality, the operations team should heed some of Deming’s fourteen points of quality control. Bright Meals can do this by not becoming reliant on inspections to achieve quality and awarding business to firms that can bring the best and most consistent quality to insure there are few defects.
Operational Considerations Continued

While the finance team may prefer to partner with the lowest priced firm this can often lead to problems in the future. Bright Meals also wants to cultivate an environment that allows employees to work on a daily basis without fear and to have the ability to voice their opinions. It is recommended that the operations team at Bright Meals try to obtain an ISO 9000 certification. This certification would prove that its operational procedures are among the best in the world and would enable Bright Meals to do business in Europe, as having an ISO 9000 is standard practice there. If Bright Meals finds that its operations process is successful it may want to try and apply for the Baldrige award further down the line. This would allow the public to see the true quality of Bright Meals and its production process, but it would also have to disclose its practices to the public. It may not want to apply for this award for the same reason because it likely would like to keep any successful production processes secret to keep any advantages it has among competitors.

Statistical process control is another operational detail Bright Meals should be wary of. Bright Meals wants to make sure that as much of the Nashville Hot Chicken with Cauli Rice comes out at the correct weight, temperature, and quality as often as possible. If any of its processes is out control, it could hurt the launch of the new product. This is especially important when considering which supplier of cauliflower Bright Meals should choose from. It wants to make sure the supplier it chooses will deliver a consistent amount of fresh cauliflower every time. Creating X, R, and P charts will give the operations team the ability to monitor its process, and alert people if something is out of control.
When working within a company like Bright Meals it is very important that all departments are constantly communicating with the operations team. That is why the other departments at Bright Meals are the key stakeholders within the organization. If the operations team decides to make a certain decision without informing other departments it could easily have detrimental effects on the entire company. For instance, it could drastically impact the finance team’s numbers, management may have to redefine the roles of certain employees, and the marketing department may have to be flexible in its pricing in response to fluctuations in production. Every person within Bright Meals needs to make sure they are not simply looking out for their own department’s best interest, rather making sure that they are communicating with others to make sure everything runs smoothly and efficiently. Bright Meals is far more likely to succeed if it works as a team rather than as groups of successful individual departments. If one small part of the overall project fails it has the potential to cause the entire project to fail.

There are also several other stakeholders. These include investors, employees, managers, customers, and suppliers. To keep investors satisfied, it is suggested that Bright Meals distributes quarterly reports to them in order to make sure they are aware of exactly where the company is headed. In order to give accurate reports the operations team should communicate with the finance team about things such as the number of inventory on hand so the finance department can create an accurate report. This will allow investors to remain on the same page as the company to minimize any potential arguments or lawsuits that could otherwise occur. It will also make investors feel more confident about investing in Bright Meals since Bright Meals is not able to pay dividends now based on information from the finance department.
As previously discussed, it is suggested that employees have the ability to voice opinions within the company to keep them happy in their positions as well. In order to keep managers happy it will be very important to allow them a decent mix of structure and freedom. If managers feel too constrained by their roles at work they may want to move onto another job, but if they have too much freedom company policies may not be followed.

There are a couple of things that are imperative that the operations team needs to know in order to have a successful launch and stimulate the most product growth. First, the operations team is going to need to keep up to date with constant changes in demand. They need to know demand so they can anticipate how many units to make and so they can inform the management team if they need to hire or fire anyone. They will also have to monitor their processes statistically so they can flag anything that may be a cause for concern. Due to the fact that almost everything that the operations team does will cost money, they will want to communicate with the finance team on a regular basis so they can stay on budget.
Six Sigma Quality

Six Sigma is a systematic project-oriented methodology which uses the DMAIC cycle that helps the firm meet consumer needs, lowers costs, and eliminates defects. Using the tools of Six Sigma, Bright Meals can increase customer satisfaction, save operational costs, and improve managerial capacity. Therefore, while producing an entirely new product, Bright Meals need to design a DMAIC methodology to ensure that consumer needs are being met.

The first step is to define the project goals and customer needs. In this case, Bright Meals wants to develop a new product to find a new source of growth within the industry. It also wants to meet customer needs by choosing to implement products it can get excited about like Nashville Hot Chicken with Cauli Rice. Also, the critical-to-quality characteristics (CTQs) for customers are healthier ingredients and convenient frozen options based on the marketplace and consumer analysis. This is a product that will be able to cater to and exceed both of those needs.

The second step is to measure the key aspects of the process and how it is performing. In creating a process flow chart, Bright Meals can utilize a graphical representation of the production process and have better understanding of how the process works. When developing a new product, Bright Meals should balance the voice of the consumer with the voice of the business. From an operational perspective, Bright Meals can measure the total cost to produce and deliver a product to consumers, including inputs, labor, and processing costs. Moreover, lead time is one of the most important things to consider for firms. For example, if the lead time exceeds customers’ demand time, Bright Meals will need to deal with the problem by either decreasing production time or renegotiating the delivery date. In this situation, Bright Meals is not able to meet consumer’s delivery requirements.
Six Sigma Quality Continued

The third step is to **analyze** the most likely causes of the new product’s defects. Utilizing a cause and effect diagram (fishbone diagram) can help Bright Meals analyze potential sources of process variations, as shown below:

Exhibit P5.1: Fishbone Diagram

Since it is suggested that Bright Meals purchase equipment to produce its desired size container for Nashville Hot Chicken with Cauli Rice, workers will not be familiar with the new equipment's working process at first. This is likely to cause some errors in the internal process when first producing the packages. Looking at the fishbone diagram, one difficulty is very clear. Transportation of cauliflower is hard to do because it must be temperature controlled to ensure no spoilage and deterioration in the quality of the product. At the same time, storage of vegetables for Bright Meals is also difficult and costly. Cauliflower does not have a long shelf life and does not always stay fresh, this will likely create difficulties when Bright Meals begins producing products. Moreover, Bright Meals can also present the causes in an ordered frequency chart using Pareto charts so that Bright Meals could focus on the important error sources.
Six Sigma Quality Continued

If they are not able to find a way to manage this then quality could suffer and they may not have the ability to meet customer needs. Also, instantaneous replenishment of cauliflower has disadvantages because Bright Meals will have to hold and store the cauliflower from the time it is received until the time it is shipped out.

The fourth step is to **improve** Bright Meal's process and eliminate the cause of defects. Repetition at work allows people to be more efficient as they continue to do the same task until they have mastered it. Therefore, employees will become more familiar with the new equipment over time and eliminate mistakes while producing the packages. Bright Meals could choose a supplier that has its process under control with respect to product quality and has lower lead times. Bright Meals in turn can receive more fresh raw materials like the cauliflower needed to produce its new entree. Additionally, Bright Meals could use QFD (house of quality) which helps to bring customer needs and desires into the decision making process to improve the overall process and make everything more efficient.

The final step is **control** which is maintaining the improvement in the process. Bright Meals should implement statistical process control to measure and control quality during the process. Control charts are used to distinguish between common and special causes of variability and could help Bright Meals understand and measure quality progress better and maintain the improvements. Six Sigma is a problem solving framework that should be considered by Bright Meals as a tool for product and process improvement to meet customer needs and ensure that the product it produces is always of the utmost quality.
Exhibit for Operations:

Exhibit P1.1: Corresponding Network Diagram before Crashing

Exhibit P1.2: Crashing the Project with CPM

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<th>E</th>
<th>EM</th>
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<td>$13,000</td>
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Exhibit P1.3: Gantt Chart Before Crashing: Early Start/Finish

Exhibit P1.4: Gantt Chart After Crashing: Early Start/Finish
Exhibit P2.1: Decision Tree

Expected Cost
$620,000

Expected Cost
$572,000

Expected Cost
$575,000
Exhibit P3.1: Order Policies

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<th>Midwest Farms</th>
<th>Pacific Produce</th>
<th>Southeast Supply</th>
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<td>Q 54522.46985</td>
<td>Q 38988.85131</td>
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<td>TAHC $ 6,740.34</td>
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<td>TAPC $ 18,375,000.00</td>
<td>TAPC $ 22,968,750.00</td>
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<td>TAC $ 18,384,339.89</td>
<td>TAC $ 22,982,230.68</td>
<td>TAC $ 20,220,983.19</td>
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Orders per year: 195, 169, 236
Lead Time: 10 days, 21 days, 5 days

Exhibit P3.2: Midwest Farms Control Charts
Exhibit P3.3: Pacific Produce Control Charts
Exhibit P3.4: Southeast Supply Control Charts
BRIGHT MEALS

FINANCE

Prepared by Team 41:

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JACOB SMITH
Introduction

No company can operate successfully if it does not have a clear idea of the state of its finances. Without the finance department doing a good job, Bright Meals will not be able to successfully launch Nashville Hot Chicken with Cauli Rice. The finance department is important for a couple of reasons. Without the finance department’s strategic planning and budgeting, Bright Meals will not be able to correctly allocate the cash necessary for marketing campaigns, purchasing inventory, employee bonuses, etc. They need to be able to allocate cash to all of the departments efficiently, or Bright Meals will have too much cash tied up in certain areas while others will not have enough. Furthermore, the finance department needs to be able to successfully manage risk. Without this, Bright Meals will be unable to know if the project makes sense financially and what effect the financial climate plays in company operations. The financial analysis of the new product launch is detailed in the following pages.
# Project Financial Data Form

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<td>Initial Net Working Capital Investment</td>
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<td>Initial Non-Depreciable Expenditures (pre-tax)</td>
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<td>Recommendation</td>
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## Financial Analysis

After the finance team completed the analysis of the project beta and the cost of capital, a beta of 0.33 was reached for the new project since it is most comparable to project P. The cost of capital for the project is 4.89%. The current risk-free rate is 3.02%, which is also the yield on the short-term Treasury bill. The T-bill the matures in 73 says was chosen because it had a 0% coupon rate, which is the same as the 1-year T-bill coupon rate. Regarding the cost of capital, a few team members raised concerns about an additional liquidity premium of 2.2% and a default risk premium of 1.3%. These two numbers were not added to the cost of capital because the liquidity issue is already reflected in the CAPM model, in the form of the risk-free rate. The default risk premium is the risk associated with a company's inability to pay off its debt, not its inability to issue dividends. Therefore, it is irrelevant, and should not be included in the calculation of the cost of capital.
Financial Analysis Continued

After determining the cost of capital, the team evaluated all of the cash flows related to the project in three categories: previous spending, new spending for the project, and spending and revenue that occurred during the life of the project. For the previous spending, the finance team determined that the majority of the spending was on sunk costs, including costs of research and development activities ($12.04M), production equipment ($5.23M), and advertising and test marketing efforts ($2.64M). All of these activities have already occurred, regardless of whether or not the project is pursued, and cannot be recovered. Therefore, they are sunk costs that will not be included in the analysis of the incremental cash flows. Additionally, one recoverable value of these activities is $6.20M, but the team decided to exclude it because it is an irrelevant cash flow. Whether the new project is pursued or not, the $6.20M will be recovered. There is only one expense in the previous spending that is relevant: the net salvage value of the project equipment. If the project were to be rejected, the equipment could be sold for $3.73M. Therefore, this is an opportunity cost of pursuing the project and must be included in its incremental cash flow analysis.

Next, the team proceeded with its analysis by evaluating the new spending related to the project. This includes $26.24M for non-depreciable items and services and $31.80M for fixed assets. Both of these costs are relevant as they will only be spent if the project is approved. Due to the fact that the non-depreciable spending is an immediate expense, it also benefits from immediate tax savings reflected in the cash flow analysis at time point 0.
Lastly, the operating cash flows that will occur once the project is launched were analyzed. Sales began at $53.90M in year 1 and grew at 6% a year. The expenses associated with these revenues include fixed expenses of $26.935M each year and variable costs of $0.38 per each dollar of sales earned. Furthermore, the finance team took into account working capital requirements of 1.5% of the next year’s revenue. This change in net working capital reflects a cash outflow during years 1-5 and a cash inflow in year 6. A few other factors were also considered regarding cash flows including the depreciation tax savings and side effects in each operating year. The project’s fixed assets received a tax break on depreciation expenses as well. The project generates $0.012 of extra earnings for Bright Meal’s other products and this incremental cash flow must be included as part of the side effect on cash flow when evaluating the project. The firm must spend $300,000 on turnover and training costs during the first two years of the project, which is also considered a part of the side effects.

Proposed cash flows including interest expenses and the opportunity cost of investing in a mutual fund were deemed irrelevant and not included in the analysis. Since the interest expense relates to financing, it should not be included in the cash flow analysis. As for the investment in the mutual fund, this opportunity cost is already reflected in the CAPM model. The return gained by a mutual fund is theoretically equivalent to that of the market as a whole, and this number is incorporated into the project’s cost of capital. Therefore, the opportunity cost of not investing in the mutual fund is already accounted for in the calculations. Once all of the relevant cash flows for the 6-year duration of the project were evaluated, the team calculated that the project’s IRR is 6.60% and the NPV is $3.56M. Given this IRR and positive NPV, the finance team recommends that Bright Meals pursue this project, as it will create value for the company’s shareholders.
Additional Analysis

Additionally, there is an offer coming up for the lease of asset D. The lease payment is $897,000 per year and it would have to be leased for 6 years at a discount rate of 5%. Since the team is analyzing the cost of 6 total payments as of today, we used the formula that determines the present value of the payments over 6 years using the annuity due method. After doing so, the total present value is $4,780,541. It is also necessary to realize that these payments are considered tax-deductible expenses so that the tax savings for each year can be calculated using the PV formula at the end of the period because the tax saving will not be generated like an annuity due payment is. This calculation yields $1,456,927 in tax savings. Combining these two figures above, we concluded that the PV of the cost of the lease option will be $3,323,614.

When it comes to the buying option, there is an uneven cash flow. Using the tax rate to calculate the tax savings of depreciation expense each year, there will be a positive cash inflow from years 1-6, and there will also be a positive NSV of asset D at the end of year 6 which is $1,088,000. After constructing the cash flow, there is a negative NPV of $3,053,389. The NPV here is negative because it represents the actual cost of buying asset D, while the positive PV of the leasing option represents the present value of all payments over 6 years. This PV also represents the cost of today's value of the 6 annual payments. When comparing the numbers, there is a lower cost for the buying option. Based on these calculations and analysis, the team would recommend purchasing asset D.