
Case 6-16

Cowgirl Chocolates

Marilyn looked at the advertisement—a beautiful woman wearing a cowboy hat in a watering trough full of hot and spicy Cowgirl Chocolate truffles (see Exhibit 1). The ad would appear next month in the March/April edition of *Chile Pepper* magazine, the leading magazine for people who liked fiery foods. The ad, the first ever for the business, cost \$3,000 to run and Marilyn wondered if it would be her big mistake for 2001. Marilyn allowed herself one \$3,000–\$6,000 mistake a year in trying to get her now four-year-old business to profitability. Two years ago, it was the pursuit of an opportunity to get her product into Great Britain on the recommendation of the owner of a British biscuit company who loved her chocolates.

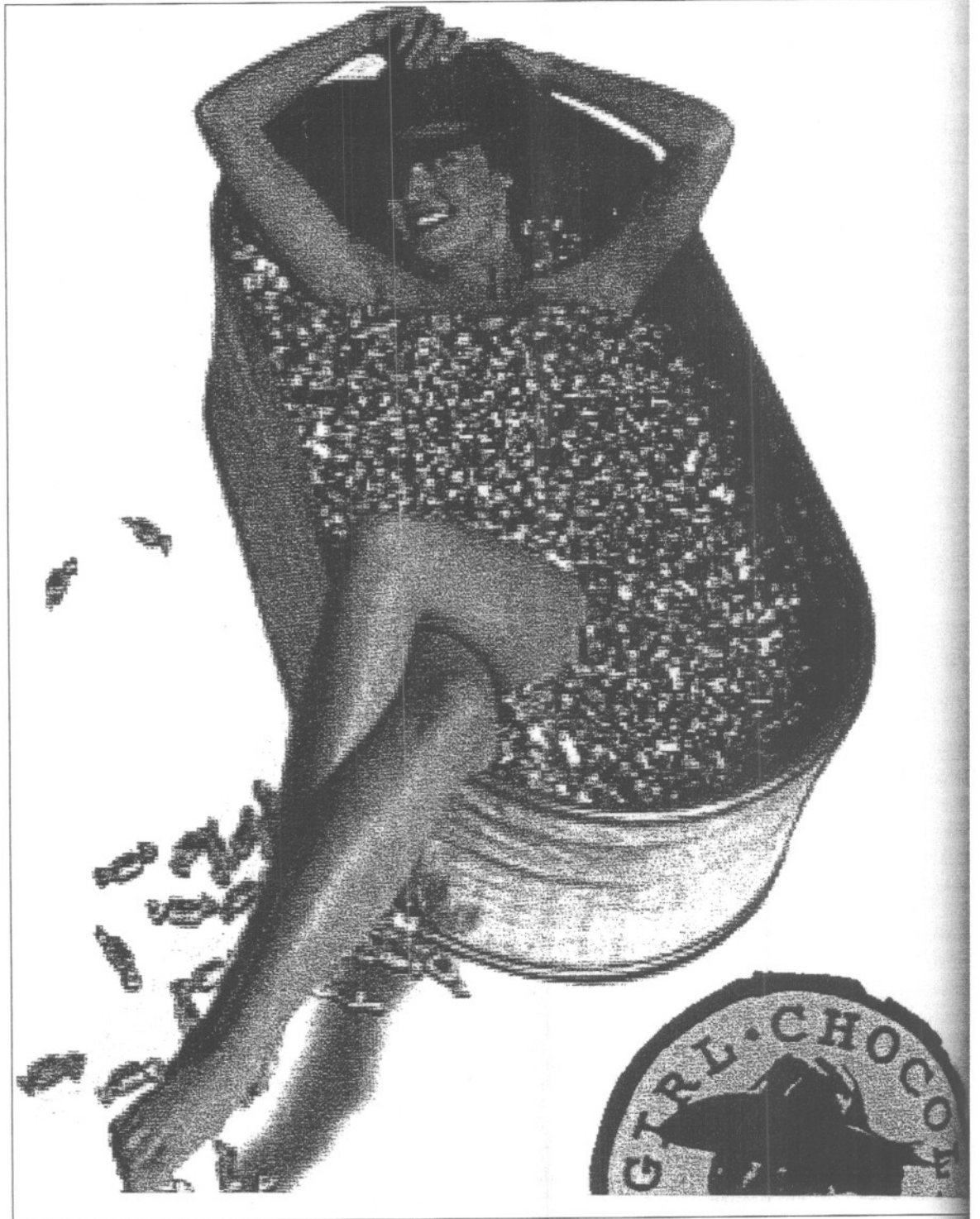
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Despite significant effort and expense, she could not convince anyone in Great Britain to carry her chocolates. Last year it was her attempt to use a distributor for the first time. It was a small, regional distributor, and she had provided them with \$5,000 worth of product and had never gotten paid. She eventually got half her product back, but by the time she did it had limited remaining shelf life and she already had enough new stock on hand to cover demand. She ended up giving most of what she got back away.

Marilyn knew it took time to make money at something. She was now an internationally celebrated ceramicist, but it had taken 20 years for her ceramic art to turn a profit. She also knew, however, that she could not wait 20 years for her foray into chocolates to make money, especially not at the rate that she was currently losing money. Last year, despite not paying herself a salary and occasionally bartering her art for services, the small business's revenues of \$30,000 did not come close to covering her \$50,000+ in expenses. While her art for a long time did not make money, it did not lose that kind of money either. Her savings account was slowly being depleted as she loaned the company money. She knew that the product was

EXHIBIT 1 Cowgirl Chocolate Ad to Appear in *Chile Pepper Magazine*



excellent—it had won numerous awards from the two main fiery food competitions in the U.S.—and her packaging was also excellent and had won awards itself. She just was not sure how to turn her award winning products into a profitable business.

Company History

Cowgirl Chocolates was started in Moscow, Idaho, in 1997 by Marilyn Lysohir and her husband, Ross Coates. Marilyn and Ross were both artists. Marilyn was an internationally known ceramicist and lecturer; Ross was also a sculptor and a professor of fine arts at a nearby university. They had started publishing a once a year arts magazine in 1995 called *High Ground*. *High Ground* was really a multimedia product—each edition contained more than simply printed words and pictures. For example, past editions had included such things as vials of Mount St. Helen's ash, cassette tapes, seeds, fabric art, and chocolate bunnies in addition to articles and stories. One edition was even packaged in a motion picture canister. With a total production of about 600 copies, however, *High Ground* simply would not pay for itself. But the magazine was a labor of love for Marilyn and Ross, and so they sought creative ways to fund the endeavor. One of the ways they tried was selling hot and spicy chocolate truffles.

The fact that Marilyn and Ross turned to chocolate was no random event. Marilyn's first job, at age 16, was at Daffin's Candies in Sharon, Pennsylvania. The business's owner, Pete Daffin, had been an early mentor of Marilyn's and had encouraged her creativity. He even let her carve a set of animals, including an 8-foot tall chocolate bunny, for display. Her sculptures proved irresistible to visiting youngsters, who would take small bites out of the sculptures. It was at this point that Marilyn realized the power of chocolate.

In addition to loving chocolate, Marilyn loved things hot and spicy. She also was aware that cayenne and other chilies had wonderful health properties for the heart. But it was her brother who originally gave her the idea of combining hot and spicy with chocolate. Marilyn considered her brother's idea for a while, and could see it had possibilities, so she started experimenting in her kitchen. She recruited neighbors, friends and acquaintances to try out her creations. While a few people who tried those early chocolates were not so sure that combining hot and spicy with chocolate made sense, many thought the chocolates were great. Encouraged, and still searching for fund-

ing for *High Ground*, Marilyn found a local candy company to produce the chocolates in quantity, and she and her husband established Cowgirl Chocolates.

The name itself came from one friend's reaction the first time she tasted the chocolates—the friend exclaimed “these are cowboy chocolates!” Marilyn agreed that there was a certain ruggedness to the concept of hot and spicy chocolates that matched the cowboy image, but thought that *Cowgirl* Chocolates was a more appropriate name for her company. Marilyn found the picture of May Lillie that would become the Cowgirl Chocolate logo in a book about cowgirls. May Lillie was a turn of the century, pistol-packing cowgirl, and Marilyn loved the picture of May looking down the barrel of a pistol because May looked so tough. And it certainly was not hard to envision May adopting the Cowgirl Chocolate motto—Sissies Stay Away. That motto had come to Marilyn when a group of friends told her that they really did not like her hot and spicy chocolates. Marilyn was a little disappointed and hurt, and thought to herself ‘well, sissies stay away, if you don't like them, don't eat them.’

The Product

Cowgirl chocolate sold its hot and spicy creations in three basic forms: individually wrapped truffles, chocolate bars, and a hot caramel dessert sauce. The individually wrapped truffles were available in a variety of packaging options, with most of the packaging designed to set Cowgirl Chocolates apart. The truffles could be purchased in gift boxes, in drawstring muslin bags, and in a collectible tin. According to Marilyn, this packaging made them “more than a candy—they become an idea, an experience, a gift.” The truffles were also available in a plain plastic bag over Cowgirl Chocolate's website for customers who just wanted the chocolate and did not care about the fancy packaging. The chocolate bars and truffles were offered in several flavors. The chocolate bars were available in either orange espresso or lime tequila crunch. The truffles were available in plain chocolate, mint, orange, lime tequila and espresso. The plain chocolate, mint, and orange truffles were packaged in gold wrappers, while the lime tequila truffles were packaged in green wrappers. The espresso truffles were the hottest, about twice as hot as the other varieties, and were wrapped in a special red foil to give customers some clue that these were extra hot. Cowgirl Chocolates' full line of product offerings are described in Exhibit 2 and are shown in Exhibit 3.

EXHIBIT 2 Cowgirl Chocolate Product Offerings with Price and Cost Figures

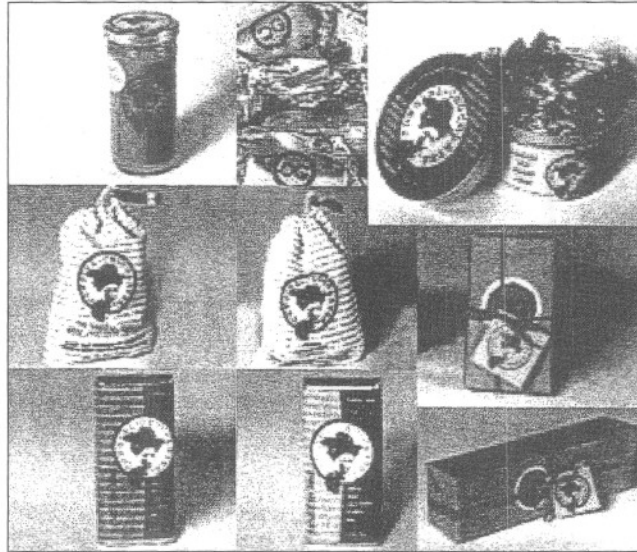
Item	Approximate Percentage of Total Revenues	Suggested Retail Price ¹	Wholesale Price ¹	Total Item Cost (a + b)	Cost of Chocolate or Sauce (a)	Cost of Product Packaging ² (b)
Spicy Chocolate Truffle Bars (available in 2 flavors: orange-espreso or lime tequila crunch)	50%	\$2.99	\$1.50	\$1.16	\$1.04	\$0.12
1/4 pound Muslin Bag (13 truffles in a drawstring muslin bag—available in 3 flavors: assorted hot, lime-tequila, and mild-mannered)	16%	\$6.95	\$3.50	\$2.35	\$1.69	\$0.66
1/2 pound Tin (assorted hot & spicy truffles in a collectable tin)	12%	\$14.95	\$7.50	\$4.78 ³	\$3.25	\$1.53
Hot Caramel Dessert Sauce (9.5 oz. Jar)	10%	\$5.95	\$3.50	\$2.50	\$2.00	\$0.50
Sampler Bag (4 assorted hot truffles in a small drawstring muslin bag)	7%	\$2.95	\$1.50	\$0.97	\$0.52	\$0.45
1/4 pound Gift Box (assorted hot truffles or mild-mannered truffles in a fancy gift box with gift card)	1%	\$8.95	\$4.50	\$2.95	\$1.69	\$1.26
1 pound Gift Box (assorted hot truffles or mild-mannered truffles in a fancy gift box with gift card)	1%	\$24.95	\$12.95	\$9.05	\$6.37	\$2.68
Gift Bucket (tin bucket containing 1/4 pound gift box, 2 truffle bars and 1 jar of caramel sauce)	1%	\$39.95	\$20.95	\$11.02	\$5.77	\$5.25
Gift Basket (made of wire and branches and containing 1/2 pound tin, 2 truffle bars, 1 jar of caramel sauce and a T-shirt)	1%	\$59.95	\$30.95	\$23.06	\$15.29 ³	\$7.77
Nothing Fancy (one pound assorted hot truffles or mild-mannered truffles in a plastic bag)	1%	\$19.50	N.A.	\$7.42	\$6.37	\$1.05

¹Approximately 1/3 of sales were retail over the Cowgirl Chocolate website, the remaining 2/3 of sales were to wholesale accounts (i.e., to other retailers).

²Packaging cost includes costs of container (bags, tins, or boxes), labels, and individual truffle wrapping. Packaging cost assumes Marilyn packs the items and does not include the packing & labeling fee charged by Seattle Chocolates if they do the packing (\$1.00 per 1/2 pound tin or 1 pound box; \$0.75 per 1/4 pound box; \$0.25 per 1/4 pound bag; \$0.20 per sampler bag).

³This cost includes the cost of the T-shirt.

EXHIBIT 3
Picture of Cowgirl
Chocolate Products
& Packaging



Marilyn was also in the process of introducing “mild-mannered” truffles. Mild-mannered truffles were simply the same fine German chocolate that Marilyn started with to produce all of her chocolates, but without the spice. Marilyn had chosen silver as the wrapper color for the mild-mannered truffles. While she took kidding from friends about how this did not fit with the company’s motto—*Sissies Stay Away*—which was integrated into the company’s logo and printed on the back of company t-shirts and hats, she had decided that even the sissies deserved excellent chocolate. Further, she thought that having the mild-mannered chocolate might allow her to get her product placed in retail locations that had previously rejected her chocolates as being too spicy. Marilyn was the first to admit that her chocolates packed a pretty good kick that not everybody found to their liking. She had developed the hot and spicy chocolates based primarily on her own tastes and the input of friends and acquaintances. She had observed many peoples’ reactions upon trying her hot and spicy chocolates at trade shows and at new retail locations, and while many people liked her chocolates, the majority found at least some of the varieties to be too hot. In general, men tended to like the hotter truffles much more than women did. Marilyn knew her observations were consistent with what information was available on the fiery foods industry—only approximately 15% of American consumers were currently eating hot and spicy foods and

men were much more inclined to eat hot and spicy foods than were women. In addition to introducing “mild-mannered” chocolates, Marilyn was also thinking about introducing a chocolate with a calcium supplement aimed at woman concerned about their calcium intake.

All of Cowgirl Chocolate’s chocolate products were sourced from Seattle Chocolates, a Seattle-based company that specialized in producing European-style chocolate confections wrapped in an elegant package fit for gift giving. Seattle Chocolates obtained all of its raw chocolate from world-renowned chocolate producer Schokinag of Germany. Seattle Chocolates sold its own retail brand plus provided private label chocolate products for a variety of companies including upscale retailers like Nieman Marcus and Nordstroms. Seattle Chocolates was, at least relative to Cowgirl Chocolates, a large company with annual sales in excess of \$5,000,000. Seattle Chocolates took Cowgirl Chocolates on as a private label customer because they liked and were intrigued by the company’s product and owners, and they had made some efforts to help Cowgirl Chocolates along the way. Seattle Chocolates provided Cowgirl Chocolates with a small amount of its table space at several important trade shows and produced in half batches for them. A half batch still consisted of 150 pounds of a given variety of chocolate, which was enough to last Cowgirl Chocolates for six months at 2000 sales rates. Marilyn hoped that she

could one day convince Seattle Chocolates to manage the wholesale side of Cowgirl Chocolates, but Seattle Chocolates simply was not interested in taking this on at the present time, at least in part because they were not really sure where the market was for the product. Marilyn also knew she would need to grow sales significantly before Seattle Chocolates would seriously consider such an arrangement, although she was not sure exactly how much she would have to grow sales before such an arrangement would become attractive to Seattle Chocolates.

The chocolate bars themselves cost Cowgirl Chocolates \$1.04 per bar while the individual chocolate truffles cost \$0.13 per piece. Seattle Chocolates also performed the wrapping and packing of the product. The chocolate bar wrappers cost \$0.06 per bar. The wrapper design of the bars had recently been changed to incorporate dietary and nutritional information. While such information was not required, Marilyn felt it helped convey a better image of her chocolates. The change had cost \$35 to prepare the new printing plates. Including the materials, wrapping the individual truffles cost \$0.02 per piece.

The distinctive muslin bags, collector tins and gift boxes also added to the final product cost. The muslin bags cost \$0.35 each for the quarter-pound size and \$0.32 each for the sampler size. The tamperproof seals for the bags cost an additional \$0.05/bag. The minimum size bag order was 500 bags. As with the chocolate bar wrappers, Cowgirl Chocolate had to buy the printing plates to print the bags. The plates to print the bags, however, cost \$250 per plate. Each color of each design required a separate plate. Each of her three quarter-pound bag styles (assorted, lime-tequila, and mild-mannered) had a three-color design. One plate that was used to produce the background design was common to all three styles of bags, but each bag required two additional unique plates. There was also a separate plate for printing the sampler bags. Marilyn was planning to discontinue the separate lime-tequila bag, and just include lime-tequila truffles in the assorted bag as a way to cut packaging costs. The lime-tequila bags had been introduced a year ago, and while they sold reasonably well, they also appeared to mostly cannibalize sales of the assorted bags.

The collectible tins cost \$0.80 each, and the labels for these tins cost \$0.19 per tin. The tape used to seal the tins cost \$0.04 per tin. The minimum order for the tins was for 800 units. The company that produced the tins had recently modified the tin design slightly to

reduce the chance that someone might cut themselves on the edge of the can. Unfortunately, this change had resulted in a very small change to the height of the can which left Cowgirl Chocolate with labels too big for the can. Each label currently had to be trimmed slightly to fit on the can. The alternative to this was to switch to a smaller label. This would require purchasing a new printing plate at a cost of about \$35 and might require the purchase of a new printing die (the die holds the label while it is printed), which would cost \$30. Marilyn also had hopes of one day being able to get her designs printed directly on the tins. It would make for even nicer tins and save the step of having to adhere the labels to the tins. The minimum order for such tins, however, was 15,000 units.

The gift boxes, including all of the associated wrapping, ribbon, and labels, cost about \$1.70 per box. The gift boxes did not sell nearly as well as the tins or bars and were available primarily through Cowgirl Chocolates website. Marilyn was still using and had a reasonable inventory of boxes from a box order she had placed three years ago.

Marilyn currently had more packaging in inventory than she normally would because she had ordered \$5,000 worth in anticipation of the possibility of having her product placed in military PX stores at the end of 2000. Seattle Chocolates had been negotiating to get their product into these stores, and there had been some interest on the part of the PX stores in also having Cowgirl Chocolate products. Given the six- to eight-week lead-time on packaging, Marilyn had wanted to be positioned to quickly take advantage of this opportunity if it materialized. While Marilyn was still hopeful this deal might come about, she was less optimistic than she had been at the time she placed the packaging order.

Marilyn was concerned that the actual packing step was not always performed with the care it should be. In particular, she was concerned that not enough or too many truffles ended up in the bags and tins, and that the seals on these containers, which made the packaging more tamper resistant, were not always applied correctly. Each quarter-pound bag and gift box was supposed to contain 13 individual truffles, each half-pound tin was supposed to contain 25 individual truffles, and each one-pound gift box was supposed to contain 49 individual truffles. The tins, in particular, had to be packed pretty tightly to get 25 truffles into them. Marilyn had done some of the packing herself at times and wondered if she would not be better off hiring lo-

college or high school students to do the packing for her to insure that the job was done to her satisfaction. It could also save her some money, as Seattle Chocolates charged her extra for packing the tins and bags. The tins, in particular, were expensive because of the time it took to apply the labels to the top and side of the tin and because of the extra care it took to get all 25 truffles into the tin. Seattle Chocolates charged \$1.00 per tin for this step.

Marilyn made the caramel sauce herself with the help of the staff in a commercial kitchen in Sandpoint, Idaho, about a 2½-hour drive north of Moscow. She could make 21 cases of 12 jars each in one day, but including the drive it took all day to do. As with the chocolate, she used only the best ingredients, including fresh cream from a local Moscow dairy. Marilyn figured her costs for the caramel sauce at about \$2.50 per jar, which included the cost of the ingredients, the jars, the labeling and the cost of using the Sandpoint kitchen. That figure did not include any allowance for the time it took her to make the sauce or put the labels on the jars. She was considering dropping the caramel sauce from her product line because it was a lot of work to produce and she was not sure she really made any money on it after her own time was factored in. She had sold 70 cases of the sauce in 2000, however, so she knew there was some demand for the product. She was considering the possibility of only offering it at Christmas time as a special seasonal product. She was also looking into the possibility of having a sauce company in Montana make it for her. The company produced caramel, chocolate, and chocolate-caramel sauces that had won awards from the fancy food industry trade association. Marilyn thought the sauces were quite good, although she did not like their caramel sauce as much as her own. The company would sell her 11 oz. jars of any of the sauces, spiced up to Marilyn's standards, for \$2.75 per jar. Marilyn would have to provide the labels, for which she would need to have new label designs made to match the jar style the company was set up for, and she would also have to pay a shipping cost of \$70–\$90 per delivery. The company requested a minimum order size of 72 cases, although the company's owner had hinted that they might be willing to produce in half batches initially.

All of Cowgirl Chocolate's products had won awards, either in the annual Fiery Food Challenges sponsored by *Chile Pepper* magazine or the Scovie Award Competitions sponsored by *Fiery Foods* magazine

(the Scovie awards are named after the Scovie measure of heat). All in all, Cowgirl Chocolates had won eleven awards in these two annual competitions. Further, the truffles had won first place in the latest Fiery Food Challenge and the caramel sauce won first place in the latest Scovie competition. The packaging, as distinctive as the chocolate itself, had also won several awards, including the 2000 Award for Excellence for Package Design from American Corporate Identity.

Distribution and Pricing

Marilyn's attempts to get her chocolates into the retail market had met with varying degrees of success. She clearly had been very successful in placing her product in her hometown of Moscow, Idaho. The Moscow Food Co-op was her single best wholesale customer, accounting for 10%–15% of her annual sales. The Co-op sold a wide variety of natural and/or organic products and produce. Many of its products, like Cowgirl Chocolates, were made or grown locally. The Co-op did a nice job of placing her product in a visible shelf location and generally priced her product less than any other retail outlet. The Co-op sold primarily the chocolate bars, which it priced at \$2.35, and the quarter-pound muslin bags of truffles, which it priced at \$5.50. This compared to the suggested retail prices of \$2.99 for the bars and \$6.99 for the bags. The product was also available at three other locations in downtown Moscow: Wild Women Traders, a store that described itself as a 'lifestyle outfitter' and that sold high-end women's clothing and antiques; Northwest Showcase, a store that sold locally produced arts and crafts; and Bookpeople, an independent bookstore that catered to customers who liked to spend time browsing an eclectic offering of books and drinking espresso before making a book purchase.

Marilyn was unsure how many of these local sales were to repeat purchasers who really liked the product and how many were to individuals who wanted to buy a locally made product to give as a gift. She was also unsure how much the Co-op's lower prices boosted the sales of her product at that location. At the Co-op, her product was displayed with other premium chocolates from several competitors, including Seattle Chocolates' own branded chocolate bars, which were priced at \$2.99. Marilyn knew the Seattle Chocolate bars were clearly comparable in chocolate quality (although

without the spice and cowgirl image). Some of the other competitors' comparably sized bars were priced lower, at \$1.99, and some smaller bars were priced at \$1.49. While these products were clearly higher in quality than the inexpensive chocolate bars sold in vending machines and at the average supermarket checkout aisle, they were made with a less expensive chocolate than she used and were simply not as good as her chocolates. Marilyn wondered how the price and size of the chocolate bar affected the consumer's purchase decision, and how consumers evaluated the quality of each of the competing chocolate bars when making their purchase.

Outside of Moscow, Marilyn had a harder time getting her product placed onto store shelves and getting her product to move through these locations. One other Co-op, the Boise Food Co-op, carried her products, and they sold pretty well there. Boise was the capital of Idaho and the state's largest city. The Boise Museum of Fine Arts gift shop also carried her product in Boise, although the product did not turn over at this location nearly as well as it did at the Boise Co-op. Other fine art museums, gift shops in places like Missoula, Montana, Portland, Oregon, and Columbus, Ohio, carried Cowgirl Chocolates and Marilyn liked having her product in these outlets. She felt that her reputation as an artist helped her get her product placed in such locations, and the product generally sold well in these locations. She thought her biggest distribution coup was getting her product sold in the world-renowned Whitney Museum in New York City. She felt that the fact that it was sold there added to the product's panache. Unfortunately, the product did not sell there particularly well and it was dropped by the museum. The museum buyer had told Marilyn that she simply thought it was too hot for their customers. Another location in New York City, the Kitchen Market, did much better. The Kitchen Market was an upscale restaurant and gourmet food take-out business. The Kitchen Market was probably her steadiest wholesale customer other than the Moscow Co-op. The product also sold pretty well at the few similar gourmet markets where she had gotten her product placed, like Rainbow Groceries in Seattle and the Culinary Institute of America in San Francisco.

Marilyn had also gotten her product placed in a handful of specialty food stores that focused on hot and spicy foods. Surprisingly, she found, the product had never sold well in these locations. Despite the fact that

the product had won the major fiery food awards, customers in these shops did not seem to be willing to pay the premium price for her product. She had concluded that if her product was located with similarly priced goods, like at the Kitchen Market in New York City, it would sell, but that if it stood out in price then it did not sell as well. Marilyn was not sure, however, just how similarly her product needed to be priced compared to other products the store sold. It seemed clear to her that her \$14.95 half-pound tins were standing out in price too much in the hot and spicy specialty stores that thrived on selling jars of hot sauce that typically retailed for \$2.99 to \$5.99. Marilyn wondered how her product might do at department stores that often sold half pound boxes of "premium" chocolates for as little as \$9.95. She knew her half pound tins contained better chocolate, offered more unique packaging and logo design, and did not give that "empty-feeling" that the competitor's oversized boxes did, but wondered if her product would stand out too much in price in such retail locations.

Several online retailers also carried Cowgirl Chocolates, including companies like Salmon River Specialty Foods and Sam McGee's Hot Sauces, although sales from such sites were not very significant. Marilyn had also had her product available through Amazon .com for a short time, but few customers purchased her product from this site during the time it was listed. Marilyn concluded that customers searching the site for music or books simply were not finding her product, and those who did simply were not shopping for chocolates.

Marilyn also sold her products retail through her own website. The website accounted for about one-third of her sales. She liked Web-based sales, despite the extra work of having to process all the small orders, because she was able to capture both the wholesale and retail profits associated with the sale. She also liked the direct contact with the retail customers, and frequently tossed a few extra truffles into a customer's order and enclosed a note that said "a little extra bonus from the head cowgirl." Marilyn allowed customers to return the chocolate for a full refund if they found it not to their liking. Most of her sales growth from 1999 to 2000 had come from her website.

The website itself was created and maintained for her by a small local Internet service provider. It was a fairly simple site. It had pages that described the company and its products and allowed customers to

place orders. It did not have any of the sophisticated features that would allow her to use it to capture information to track customers. Although she did not know for sure, she suspected that many of her Internet sales were from repeat customers who were familiar with her product. She included her website address on all of her packaging and had listed her site on several other sites, like saucemall.com and worldmall.com that would link shoppers at these sites to her site. Listing on some of these sites, like saucemall.com, was free. Listing on some other sites cost a small monthly fee—for the worldmall.com listing, for example, she paid \$25/month. Some sites simply provided links to her site on their own. For example, one customer had told her she had found the Cowgirl Chocolate site off of an upscale shopping site called Style365.com. She was not sure how much traffic these various sites were generating on her site, and was unsure how best to attract new customers to her website aside from these efforts.

Marilyn had attempted to get her product into a number of bigger name, upscale retailers, like Dean & DeLuca and Coldwater Creek. Dean and DeLuca was known for its high-end specialty foods, and the buyers for the company had seemed interested in carrying Cowgirl Chocolates, but the owner had nixed the idea because he found the chocolates too spicy. One of the buyers had also told Marilyn that the owner was more of a chocolate purist or traditionalist who did not really like the idea of adding cayenne pepper to chocolate. Marilyn had also tried hard to get her product sold through Coldwater Creek, one of the largest catalog and online retailers in the country that sold high-end women's apparel and gifts for the home. Coldwater Creek was headquartered just a couple of hours north of Moscow in Sandpoint, Idaho. Like Dean & DeLuca, Coldwater Creek had decided that the chocolate was too spicy. Coldwater Creek had also expressed some reservations about carrying food products other than at its retail outlet in Sandpoint. Marilyn hoped that the introduction of mild-mannered Cowgirl Chocolates would help get her product into sites like these two.

Promotion

Marilyn was unsure how best to promote her product to potential customers given her limited resources. The ad that would appear in *Chile Pepper* magazine

was her first attempt at really advertising her product. The ad itself was designed to grab readers' attention and pique their curiosity about Cowgirl Chocolates. Most of the ads in the magazine were fairly standard in format. They provided a lot of information and images of the product packed into a fairly small space. Her ad was different—it had very little product information and utilized the single image of the woman in the watering trough. It was to appear in a special section of the magazine that focused on celebrity musicians like Willie Nelson and The Dixie Chicks.

Other than the upcoming ad, Marilyn's promotional efforts were focused on trade shows and creating publicity opportunities. She attended a handful of trade shows each year. Some of these were focused on the hot and spicy food market, and it was at these events that she had won all of her awards. Other trade shows were more in the gourmet food market, and she typically shared table space at these events with Seattle Chocolates. She always gave away a lot of product samples at these trade shows, and had clearly won over some fans to her chocolate. But while these shows occasionally had led to placement of her product in retail locations, at least on a trial basis, they had as yet failed to land her what she would consider to be a really high volume wholesale account.

Marilyn also sought ways to generate publicity for her company and products. Several local newspapers had carried stories on her company in the last couple of years, and each time something like that would happen, she would see a brief jump in sales on her website. The *New York Times* had also carried a short article about her and her company. The day after that article ran, she generated sales of \$1,000 through her website. More publicity like the *New York Times* article would clearly help. The recently released movie *Chocolat* about a woman who brings spicy chocolate with somewhat magical powers to a small French town was also generating some interest in her product. A number of customers had inquired if she used the same pepper in her chocolates as was used in the movie. Marilyn wondered how she might best capitalize on the interest the movie was creating in spicy chocolates. She thought that perhaps she could convince specialty magazines like *Art & Antiques* or regional magazines like *Sunset Magazine* or even national magazines like *Good Housekeeping* to run stories on her, her art and her chocolates. But she only had so much time to

divide between her various efforts. She had looked into hiring a public relations firm, but had discovered that this would cost something on the order of \$2,000/month. She did not expect that any publicity a public relations firm could create would generate sufficient sales to offset this cost, particularly given the limited number of locations where people could buy her chocolates. Marilyn was considering trying to write a cookbook as a way to generate greater publicity for Cowgirl Chocolates. She always talked a little about Cowgirl Chocolates when she gave seminars and presentations about her art, and thought that promoting a cookbook would create similar opportunities. The cookbook would also feature several recipes using Cowgirl Chocolate products.

In addition to being unsure how best to promote her product to potential customers, Marilyn also wondered what she should do to better tap into the seasonal opportunities that presented themselves to sellers of chocolate. Demand for her product was somewhat seasonal, with peak retail demand being at Christmas and Valentine's Day. But she was clearly not seeing the Christmas and Valentine sales of other chocolate companies. Seattle Chocolates, for example, had around three-quarters of its annual sales in the fourth quarter, whereas Cowgirl Chocolate sales in the second half of 2000 were actually less than in the first half. Likewise, while Cowgirl Chocolates experienced a small increase in demand around Valentine's Day, it was nowhere near the increase in demand that other chocolate companies experienced. Marilyn did sell some gift buckets and baskets through her website, and these were more popular at Christmas and Valentine's Day. The Moscow Co-op had also sold some of these gift baskets and buckets during the 2000 Christmas season. Marilyn knew that the gift basket industry in the U.S. was pretty large, and that the industry even had its own trade publication called the *Gift Basket Review*. But she was not sure if gift baskets were the best way to generate sales at these two big holidays and thought that she could probably be doing more. One other approach to spur these seasonal sales that she was planning to try was to buy lists of e-mail addresses, that would allow her to send out several e-mails promoting her products right before Valentine's Day and Christmas. She had talked to the owners of a jewelry store about sharing the expense of this endeavor and they had tentative plans to purchase 10,000 e-mail addresses for \$300.

What Next?

Marilyn looked again at the advertisement that would be appearing soon in *Chile Pepper Magazine*. The same friend who had helped her with her award winning package design had helped produce the ad. It would clearly grab people's attention, but would it bring customers to her products in the numbers she needed?

Next to the ad sat the folder with what financial information she had. Despite having little training in small business accounting and financial management, Marilyn knew it was important to keep good records. She had kept track of revenues and expenses for the year, and she had summarized these in a table (see Exhibit 4). Marilyn had shared this revenue and cost information with a friend with some experience in small business financial management, and the result was an estimated income statement for the year 2000 based upon the unaudited information in Exhibit 4. The estimated income statement, shown in Exhibit 5, revealed that Cowgirl had lost approximately \$6,175 on operations before taxes. Combining the information in Exhibits 4 and 5, it appeared that the inventory had built up to approximately \$16,848 by December 31, 2000. Marilyn had initially guessed she had \$10,000 worth of product and packaging inventory, about twice her normal level of inventory, between what was stored in her garage turned art studio turned chocolate warehouse and what was stored for her at Seattle Chocolates. But the financial analysis indicated that she either had more inventory than she thought or that she had given away more product than she originally thought. Either way, this represented a significant additional drain on her resources—in effect cash expended to cover both the operational loss and the inventory buildup was approximately \$23,000 in total (see note 5 of Exhibit 4 for a more detailed explanation). When Marilyn looked at the Exhibits, she could see better why she had to loan the firm money. She also recognized that the bottom line was that the numbers did not look good, and she wondered if the ad would help turn things around for 2001.

If the ad did not have its desired affect, she wondered what she should do next. She clearly had limited resources to work with. She had already pretty much decided that if this ad did not work, she would not run another one in the near future. She was also pretty wary of working with distributors. In addition to her own bad experience, she knew of others in the industry that had bad experiences with distributors, and she did not think

EXHIBIT 4
Summary of
2000 Financial
Information
(unaudited)

Revenues:	
Product Sales	\$ 26,000
Revenue from Shipping	4,046 (see Note 1)
Total Revenues	\$ 30,046
Expenses: (related to cost of sales)	
Chocolate (raw material)	\$ 16,508
Caramel (raw material)	2,647
Packaging (bags, boxes, tins)	9,120
Printing (labels, cards, etc)	3,148
Subtotal	\$ 31,423 (see Note 2)
Other Expenses	
Shipping and Postage	\$ 4,046
Brokers	540
Travel (airfare, lodging, meals, gas)	5,786
Trade shows (promotions, etc.)	6,423
Website	1,390
Phone	981
Office Supplies	759
Photography	356
Insurance, Lawyers, Memberships	437
Charitable Contributions	200
Miscellaneous Other Expenses	1,071
State Taxes	35
Subtotal	\$ 22,024
Total Expenses	\$ 53,447
Cash needed to sustain operations	\$ 23,023 (see Note 3)
Estimated year-end inventory (12/31/00):	
Product Inventory	\$ 9,848
Extra Packaging and Labels	7,000
Total Inventory	\$ 16,848

Notes

(1) The \$4,046 Revenue from Shipping represents income received from customers who are charged shipping and postage up front as part of the order. Cowgirl then pays the shipping and postage when the order is delivered. The offsetting operating expense is noted in "Other Expenses."

(2) Of this amount, \$14,575 is attributed to product actually sold and shipped. The remaining \$16,848 represents leftover inventory and related supplies (i.e., \$16,848 + \$14,575 = \$31,423).

(3) Marilyn made a personal loan to the firm in the year 2000 for approximately \$23,000 to sustain the business's operations.

she could afford to take another gamble on a distributor. She wondered if she should focus more attention on her online retail sales or on expanding her wholesale business to include more retailers. If she focused more on her own online sales, what exactly should she do? If she focused on expanding her wholesale business, where should she put her emphasis? Should she continue to pursue retailers that specialized in hot and spicy foods, try to get her product placed in more Co-ops, expand her efforts to get the product positioned as a gift in museum gift shops and similar outlets, or

focus her efforts on large, high-end retailers like Coldwater Creek and Dean & DeLuca now that she had a nonspicy chocolate in her product mix? Or should she try to do something else entirely new? And what more should she do to create publicity for her product? Was the cookbook idea worth pursuing? As she thought about it, she began to wonder if things were beginning to spin out of control. Here she was, contemplating writing a cookbook to generate publicity for her chocolate company that she started to raise money to publish her arts magazine. Where would this end?

EXHIBIT 5 Cowgirl Chocolates Income Statement (accountant's unaudited estimate for Year 2000)

			% of Sales
Revenues:			
Product Sales	\$26,000		
Miscellaneous Income	\$ 4,046		
Total Net Sales		\$30,046	100%
Cost of Sales (shipped portion of chocolate, caramel, packaging, and printing)		\$14,197	47%
Gross Margin		\$15,849	53%
Operating Expenses:			
Advertising & Promotions:			
Trade Shows	6,423		
Website	1,390		
Charitable Contributions	200		
Subtotal		8,013	27%
Travel		5,786	19%
Miscellaneous		1,071	4%
Payroll Expense/Benefits @ 20%	(no personnel charges)	—	0%
Depreciation on Plant and Equipment	(no current ownership of PPE)	—	0%
Continuing Inventory (finished and unfinished)	(not included in income statement)	—	
Shipping & Postage		4,046	13%
Insurance, Lawyers, Professional Memberships		437	1.5%
Brokers		540	1.8%
Office Expenses (phone, supplies, photography, taxes)		2,131	7%
Total Operating Expenses		22,024	
Grand Total: All expenses		\$36,221	
Profit before Interest & Taxes		(\$6,175) [see note]	
Interest Expense (short term)		—	
Interest Expense (long term)		—	
Taxes Incurred (Credit @ 18%, approximate tax rate)		(\$1,124)	
Net Profit After Taxes		(\$5,051.15)	
Net Profit After Taxes/Sales			-17%

Note: The (\$6,175) loss plus the \$16,848 in inventory build-up approximates the cash needed (\$23,023—see Exhibit 4) to cover the total expenses for year 2000.