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Superite Dairies, Inc.

William F. Glueck

Superite Dairies, Inc., is the largest processor of dairy products in the Nashville, Tennessee, area. With over \$8 million in sales in 1969, the company claimed about 40 percent of the area market in milk, ice cream, and related products. Its main products are given in Table 1.

A history of quality

When asked why Superite has been able to maintain such a large share of the market, Mr. C. L. Litney, firm president, replied, "Our success can be summed up in one word: 'quality.' People buy our products because they are superior tasting compared to any others in the area. We've been able to keep national brands out of Nashville because they know they can't top our quality."

Superite's tradition of quality began with the founding of the company in 1929 by Thomas Baker. The former plant manager for a national dairy company, Mr. Baker emphasized efficiency and quality, and was able to keep the company on its feet during the Depression years. In 1938, he decided to get into the more profitable ice cream business, and purchased an existing combination milk and ice cream plant. At the same time, he hired James Hollingsworth, presently executive vice president, as marketing manager. The company grew rapidly in the following years. Mr. Hollingsworth initiated an aggressive marketing program, using methods never employed before in Nashville. Delivery trucks were painted bright colors, route salesmen were put in uniform, and a vigorous advertising campaign was inaugurated. The sales of milk expanded so rapidly that the space needed for the processing of milk crowded out the ice cream facilities. In 1942, Mr. Baker began seeking a new combination milk-ice cream plant. He decided to build a completely new plant, using all the latest features in plant design. Mr. Litney, who had been employed by a national dairy for many years and was thoroughly familiar with the ice cream business, was hired to supervise construction and manage the new plant. After the

This is a disguised case. That is, the facts in it are based on a real company. But the names of the persons involved, the location, and the quantitative data have been changed because the company requested it. It serves no useful purpose to try to determine which company is the "real" company.

TABLE 1 ■ PERCENT OF SALES OF SUPERITE'S MAIN PRODUCTS

Product	Percent of sales
Superite milk (homogenized, whole milk)	36.2
Vita-cal milk (fortified, low-fat milk)	21.8
Superite ice cream	14.0
Delite frozen dessert	8.4
Other assorted products	19.6
Total	100.0

new plant began operations, sales spiraled upward. The company rapidly passed its competitors in sales. Mr. Baker died suddenly in 1956, leaving Mr. Litney as the new president. Mr. Litney has continued the emphasis on quality and sales growth.

Much of Superite's success can be attributed to the lifelong devotion of its executives. Top management includes the following people.

President: Charles L. Litney Fifty-eight years old, Mr. Litney has worked in dairy operations since graduating from a dairy institution 37 years ago. He has been described by fellow workers as "aggressive" and "hard driving." He has a fierce competitive instinct. He once remarked, "There are no rule books in this game. You kick them (competitors) while they are down, and keep kicking." Mr. Litney is very active in community affairs and recently held a top position in the local Chamber of Commerce.

Executive Vice President: James D. Hollingsworth Mr. Hollingsworth has also spent most of his working life in the dairy business. A capable person, he moves more slowly than Mr. Litney, but seldom makes mistakes. He is regarded as Mr. Litney's closest adviser and confidant. Mr. Hollingsworth is well liked by Superite employees and spends much of his time in employee relations.

Vice President of Sales and Promotion: Kenneth Baker The son of the founder, Thomas Baker, Mr. Baker has been with the company since graduating from high school in 1952. Mr. Baker is in charge of all promotions, but since the company has a contract with an advertising agency, he does little of the actual planning himself. Most of his time is spent in working as a liaison between Superite and the advertising agency.

General Manager: Chester Hunton Mr. Hunton is office manager and head of accounting, finance, and purchasing functions. He has worked for Superite for 15 years. Before that, he was superintendent for a large dairy in Knoxville, Tennessee.

Marketing Manager: William Starr Mr. Starr's main job is to maintain relations with the various retailers who handle Superite products. With Kenneth Baker, he aids in setting up displays, investigates complaints, and in general promotes goodwill between the company and retailers. He has worked for Superite only 2 years. Before that, he had a sales position with a national lumber firm.

Assistant General Manager: Richard Rodewald Mr. Rodewald is in charge of production and quality control, including storage, maintenance, and fleet operations. He has 14 years of supervisory experience in dairy production and processing.

All of Superite's top officials are active in community affairs. Mr. Litney thinks that since Superite is a locally owned and operated business, "We have an obligation to be good citizens and to help Nashville grow and prosper to become a better place to live."

The company's organization is shown in Figure 1.

FIGURE 1

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Company rapidly
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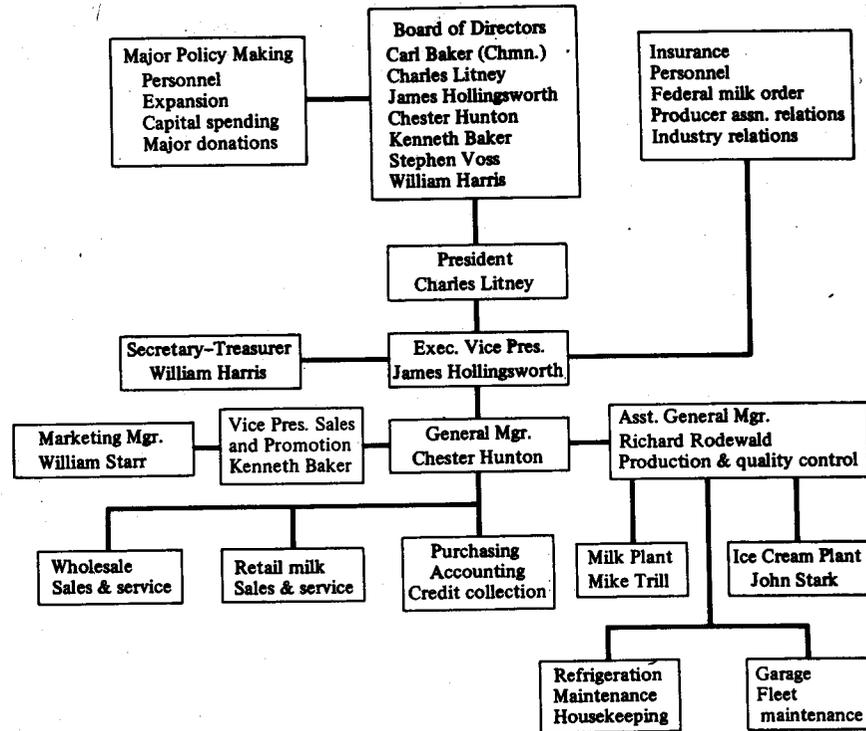


FIGURE 1 ■ Organization chart.

The dairy industry

Although 1968 saw the lowest total milk production since 1952 at 117.3 billion pounds, and a corresponding decline in farmers' sales of milk and cream, producer's cash receipts from milk sold to processors were \$224 million more in 1968 than in 1967. Income in 1968 was up about \$925 million over 1965, an increase of 18 percent in 3 years. Farm returns from marketing milk to processors and distributors have increased every year since 1962.

While milk prices the consumers paid were slightly higher in 1968 than in 1967, milk was the greatest bargain ever in terms of its "real" cost. In 1968, a half gallon of milk could be purchased for what an average production worker earned in 10.7 minutes. Twenty years ago about 6 quarts of milk could be obtained for an hour's wages; in 1968 an hour's earnings would buy more than 11 quarts.

In 1968, fluid milk and cream took 45.7 percent of the total milk supply up from 45.0 percent in 1967. Frozen products, cheese, and "other" products all substantially increased their proportions of the milk supply, while evaporated and condensed milk about held their share. However, butter and farm use lost ground.

Total fluid product sales gained 1.4 percent, whereas sales of milk in all dairy products held at about the 1967 level. Sales of low-fat milk products rose nearly 16 percent, the third year in a row that gains were more than 10 percent.

Total skim and low-fat milk items in 1968 were about 17 percent of the total sales of fluid milk and cream products compared to about 7 percent in 1970. Most of the decrease came from decreased sales of low-fat (2 percent) milk.

Dairy products contribute substantially to the gross national product of the United States, accounting for about 16 percent or \$12.9 billion of the total value of food industry shipments in 1967. Fluid milk made up about 60 percent of the dairy product total.

The dairy industry is important to Tennessee as can be seen in Table 2. The milk industry is not equally important to all states, and some must import their

TABLE 2 ■ MILK COWS, PRODUCTION, AND INCOME BY STATES, 1968 (AS OF JANUARY 1969)

State	Milk cows* (thousands)	Value of cows and heifers Jan. 1, 1968 (1000 dollars)	Milk production (million pounds)	Average production per cow (pounds)	Cash farm income from milk	
					Value (1000 dollars)	Percentage of farm income, ^b %
Alabama	143	25,740	808	5,650	48,910	7.7
Alaska	2	665	18	9,830	1,807	44.4
Arizona	51	15,950	553	10,840	35,086	6.3
Arkansas	102	19,820	688	6,750	36,542	3.8
California	781	262,880	8,950	11,460	470,286	11.0
Colorado	89	25,300	844	8,530	48,153	5.1
Connecticut	87	25,550	680	10,150	45,208	28.2
Delaware	15	4,480	134	8,930	8,063	6.5
Florida	182	45,360	1,554	8,540	115,123	9.4
Georgia	139	28,120	1,041	7,490	64,544	6.3
Hawaii	14	6,900	134	9,930	12,619	6.1
Idaho	156	44,460	1,454	9,320	60,352	11.4
Illinois	330	96,195	3,109	9,420	147,911	5.7
Indiana	252	69,870	2,434	9,660	127,731	9.3
Iowa	569	157,300	5,178	9,100	215,303	6.1
Kansas	212	55,125	1,717	8,100	83,768	5.4
Kentucky	367	84,000	2,510	6,840	116,312	15.1
Louisiana	180	34,650	1,033	5,740	64,897	10.3
Maine	69	22,040	598	8,670	37,506	18.1
Maryland	170	53,360	1,513	8,900	91,527	26.6
Massachusetts	69	25,125	695	10,070	47,358	29.8
Michigan	473	152,195	4,588	9,700	244,928	28.3
Minnesota	1,057	303,690	10,263	9,710	425,562	23.5
Mississippi	209	37,280	1,093	5,230	59,439	7.5
Missouri	380	86,520	3,059	8,050	139,713	10.2
Montana	46	11,520	356	7,740	15,589	3.3
Nebraska	210	55,590	1,659	7,900	65,540	3.9
Nevada	14	4,125	137	10,020	7,425	12.6
New Hampshire	39	13,760	360	9,240	22,200	38.6
New Jersey	79	29,930	810	10,250	48,886	18.9
New Mexico	38	8,385	315	8,290	20,195	6.0
New York	1,039	379,220	10,203	9,820	557,058	54.1
North Carolina	193	39,035	1,475	7,640	86,182	7.2
North Dakota	156	42,000	1,164	7,460	38,431	5.3
Ohio	475	135,810	4,512	9,500	144,890	19.8
Oklahoma	155	33,200	1,283	8,280	66,969	7.9
Oregon	113	27,600	971	8,590	51,448	10.2
Pennsylvania	728	277,100	6,916	9,500	407,664	44.8
Rhode Island	8	2,760	80	9,880	5,202	26.0
South Carolina	72	12,920	514	7,140	33,005	8.8
South Dakota	202	55,640	1,640	8,120	64,358	6.7
Tennessee	329	65,120	2,115	6,430	106,329	17.2
Texas	365	72,930	2,982	8,170	183,660	6.8
Utah	75	21,320	759	10,120	38,970	20.5
Vermont	209	75,400	1,873	8,960	110,056	76.9
Virginia	231	51,865	1,763	7,630	96,366	18.9
Washington	186	58,000	1,953	10,500	106,807	13.4
West Virginia	67	12,600	425	6,340	21,429	21.5
Wisconsin	1,887	628,200	18,210	9,650	807,256	54.9
Wyoming	20	4,700	158	8,110	6,954	3.3
United States	13,024	3,801,105	117,281	9,006	5,861,517	13.5

* Average number on farms during year, excluding heifers not yet fresh.

^b Based on data in column 5 and preliminary estimates of total cash receipts from farm marketings.

Source: United States Dairy Association.

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Percentage of farm income,^a %

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- 6.5
- 9.4
- 6.3
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- 6.1
- 5.4
- 15.1
- 10.3
- 18.1
- 26.6
- 29.8
- 28.3
- 23.5
- 7.5
- 10.2
- 3.3
- 3.9
- 12.6
- 38.6
- 18.9
- 6.0
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- 54.9
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- 13.5

TABLE 3 ■ PER CAPITA SALES OF FLUID AND MANUFACTURED DAIRY PRODUCTS IN THE UNITED STATES, 1950, 1955, AND 1958 TO 1968^a

Year	Fluid products						Cheese ^c					Manufactured products			Frozen desserts	
	Total fluid milk products Qt	Fresh whole milk Qt	Cream Qt	Skim milk or low-fat items ^b Qt	Condensed whole milk Lb	Evaporated whole milk Lb	Butter Lb	American Lb	Other Lb	Cottage cheese ^d Lb	Dry whole milk Lb	Nonfat dry milk Lb	Evaporated and condensed skim milk ^e Lb	Net milk used ^f Lb	Ice cream product weight Lb	
1950	141.7	129.3	5.2	7.2	2.0	18.5	9.1	5.4	2.2	3.1	0.3	3.5	5.1	45.6	17.6	
1955	148.7	134.9	4.5	9.3	2.0	14.5	7.5	4.8	2.5	3.9	.3	4.9	4.6	49.7	18.4	
1958	147.3	133.0	4.4	9.9	2.4	12.5	7.1	4.7	2.6	4.6	.3	4.7	4.2	50.6	18.2	
1959	145.4	130.7	4.3	10.4	2.5	12.0	6.9	5.0	2.8	4.7	.3	5.4	4.5	53.1	19.0	
1960 ^{g,h}	143.7	128.4	4.3	11.0	2.5	11.4	6.8	5.3	2.9	4.8	.3	5.6	4.4	52.5	18.7	
1961	140.7	124.7	4.1	11.9	2.6	10.8	6.4	5.5	2.9	4.6	.3	5.3	4.7	52.4	18.3	
1962	140.2	123.7	4.0	12.5	2.3	10.2	6.3	5.3	3.1	4.6	.3	5.1	4.8	52.4	18.2	
1963	141.4	124.4	3.9	13.3	2.2	9.5	5.9	5.4	3.1	4.6	.3	4.9	4.5	52.7	18.3	
1964 ⁱ	141.6	123.3	3.7	14.6	2.3	9.1	5.9	5.4	3.2	4.7	.3	5.1	4.7	53.6	18.5	
1965	142.1	122.8	3.6	15.7	2.2	8.6	5.8	5.7	3.4	4.6	.3	4.8	5.0	54.5	18.7	
1966	141.8	120.9	3.4	17.5	2.0	7.9	5.4	6.2	3.6	4.6	.3	5.2	5.3	53.8	18.4	
1967	138.4	115.8	3.1	19.5	1.9	7.1	4.9	6.0	3.6	4.5	.3	5.0	5.0	53.2	18.1	
1968 ^j	138.8	113.5	3.0	22.3	1.8	6.6	4.9	6.1	4.0	4.6	.2	5.2	4.7	54.6	18.8	

^a Excludes milk used on farms where produced and distribution from USDA supplies, includes sales to the Armed Services for use in the United States. Based on resident population, except fluid milk product sales are based on estimated population using fluid products from purchased sources.

^b Includes natural and cultured buttermilk and all skim items, including quantities used in flavored drinks.

^c Whole and part whole milk cheese (excluding cottage, pot, and bakers').

^d Includes minor quantities of other skim milk cheese.

^e Includes evaporated and condensed buttermilk.

^f Amount of milk (equivalent) used in making ice cream and other frozen products, excluding approximate quantities supplied in the form of butter and condensed whole milk.

^g Leap year, one additional day of consumption.

^h Beginning 1960, figures include Alaska and Hawaii.

ⁱ Preliminary.

Source: U.S. Department of Agriculture.

milk from neighboring areas. Table 2 presents industry data on production and income of the dairy industry in the United States.

Tables 3 and 4 present recent statistics on industry sales and supply for the dairy industry.

In the Nashville area, there are four other processors besides Superite. The largest of these, Hillsdale Dairy, accounts for 22 percent of the area market. Over the years, Superite has steadily increased its market share at the expense of its competitors. In recent years this growth has slowed, and Hillsdale, which markets low- to medium-priced products, has made some gains.

Within the past 8 years two companies have been formed to compete directly with Superite. Soon after the first opened, a mysterious fire destroyed the entire plant. The second plant was closed by a prolonged and extremely violent truck drivers' strike. Neither plant has attempted to reopen. Some store owners, probably not friendly to Superite, implied that Superite had engineered these "misfortunes" by ties with unsavory elements on the fringes of the union movement or even the underworld. Recently, Sealtest, a large national dairy, announced that it would soon begin selling in the Nashville area. At this writing, over one-third of the retail food stores in the area have made preliminary agreements with Sealtest to handle their products.

TABLE 4 ■ FLUID MILK PRODUCT SALES, SELECTED FEDERAL ORDER MARKETS, 1960 AND 1963 TO 1968^a

Fluid Items	1960 %	1963 %	1964 %	1965 %	1966 %	1967 %	1968 %
Whole milk ^b	87.6	85.4	84.5	83.7	82.1	80.4	78.5
Flavored whole milk	2.0	2.4	2.5	2.6	2.7	2.6	2.5
Total whole milk items	89.6	87.8	87.0	86.3	84.9	83.1	81.1
Low-fat (2%) milk	c	c	c	c	6.5	8.3	9.9
Plain	c	c	c	c	1.6	2.0	2.2
Solids added	c	c	c	c	5.0	6.3	7.6
Skim milk	4.6	6.8	7.8	8.6	3.7	3.7	4.0
Plain	1.8	2.5	2.6	2.8	1.4	1.4	1.3
Solids added	2.8	4.4	5.1	5.9	2.2	2.2	2.7
Buttermilk ^d	2.2	1.9	1.9	2.0	2.0	2.0	2.0
Flavored milk drinks	0.6	0.7	0.7	0.7	0.7	0.8	0.9
Total skim and low-fat milk items	7.4	9.5	10.4	11.3	12.9	14.7	16.8
Milk and cream mixtures	1.7	1.6	1.5	1.3	1.3	1.2	1.2
Light cream	0.6	0.4	0.4	0.4	0.3	0.3	0.2
Heavy cream	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Sour cream	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Total cream items	1.2	1.0	0.9	0.9	0.8	0.8	0.7
Eggnog	0.1	0.1	0.1	0.1	0.2	0.2	0.2
Total fluid milk and cream	100.0	100.0	100.0	100.0	100.0	100.0	100.0

^a Individual items may not add to total; owing to rounding.

^b Includes whole milk equivalent of small quantity of concentrated milk.

^c Included with skim milk.

^d Includes small quantities of yogurt and cultured specialties.

The human problems at Superite

Most of Superite's 300 employees are engaged in unskilled or semiskilled tasks. Most of the labor hired has had no prior dairy experience, and it is the responsibility of the individual departments to train them through on-the-job training. The more skilled workers and supervisors get some training from nearby colleges and through Superite's own training programs. Employees are sometimes sent to participate in educational programs presented by associations such as the Milk Industry Foundation or the International Association of Ice Cream Manufacturers.

Pay received by Superite employees is consistent with pay scales in the Nashville area. Although not high by national standards, it is deemed "adequate" for this locality. A number of benefits are offered to employees. After 15 years of service, employees are entitled to retire with a pension. Insurance policies are offered to employees on a "half-and-half" basis, meaning that the employees pay half of the insurance premium and Superite pays the remainder. Such policies cover medical and hospitalization expenses for the entire family. The pension plan is funded entirely by Superite.

Superite plant employees do not belong to a union. One attempt has been made to unionize these employees. In this instance, a union, without identifying itself as such, sent out cards to the employees asking them questions such as "Would you like to make more money?" and "Do you want shorter hours, longer vacations?" Later, the union notified the management that it had the signatures of the employees and that they wished to unionize. Mr. Hollings-

MARKETS, 1960 AND

1967 %	1968 %
80.4	78.5
2.6	2.5
83.1	81.1
8.3	9.9
2.0	2.2
6.3	7.6
3.7	4.0
1.4	1.3
2.2	2.7
2.0	2.0
0.8	0.9
14.7	16.8
1.2	1.2
0.3	0.2
0.2	0.2
0.3	0.3
0.8	0.7
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100.0	100.0

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attempt has been without identify- n questions such nt shorter hours, it that it had the e. Mr. Hollings-

worth reported that they paid little attention to the union effort, and the employees, upon learning of the union involvement, did not pursue the matter further.

But the drivers are unionized. They have shifted back and forth between the Teamsters Union and a smaller Milk Drivers Union. One individual close to the company told the case writer that at times the management found "ways" to keep labor trouble (slowdowns, strikes, etc.) low by being very friendly with union leaders. One member of management supposedly met the union leader regularly in private to "talk things over." Superite had so little labor trouble that some union members suspected that the manager exchanged more than talk with the labor leader. Of course, Superite had to walk a tightrope when the two unions were battling over representation rights and there had been minor violence, mostly roughing up of drivers at times like that.

It is known that the union would like to get the plant employees to join and may be putting pressure on Superite to "encourage" them to join. When asked if union problems were a major concern of Superite, Mr. Hollingsworth said, "I think union problems are the major problem Superite has."

Processing Superite products

Milk is produced at a rate of about 26,000 gallons per day by Superite. Superite purchases all fresh milk from a dairy co-op (116 producers) at prices set by the Federal Milk Marketing Order. Quality control begins with the purchase of milk. Mr. Hunton said that the best check for quality products is to make sure that only Grade A milk is purchased from the farmers in the first place. All drivers of the tank trucks are licensed milk testers and have the responsibility of checking the milk for quality, smell, and taste.

After the milk is delivered by the company-owned tank trucks, samples are taken for laboratory tests. Then the milk is approved for quality and it goes into giant stainless steel refrigerated storage tanks, where it is held at a temperature of 35°. From there, it is first preheated, and then run through stainless steel pipes to the homogenizer. In the homogenizer, the milk is subjected to high pressures which force the cream to be distributed evenly throughout the milk. After homogenization, the milk is piped to the pasteurizer, where it is heated to a temperature of 163° for 15 seconds. It is then put in bottles or cartons and sent to the cold storage room to await delivery. Mr. Hunton tries to keep a 1-day inventory of milk.

The equipment used to make ice cream is of the latest in design. Fully automatic, it features an electronic quality control device which constantly monitors quality, assuring that all output meets standards for taste, content, and texture. A 3-day inventory of ice cream is carried in the frozen storage vault. Mr. Hunton emphasized that ice cream does not age appreciably and can be kept for up to 3 years if the proper temperatures are maintained.

In addition to milk and ice cream, the company produces a variety of other dairy products, including whipping cream, half and half, cottage cheese, sour cream, and sour-cream party dips. Superite finds it more practical to buy some products from outside than to produce them. Cottage cheese, for example, is

Inter Street (Operation)

imported from Missouri. Milk is used to produce all Superite products. One quart of milk weighs 2.15 pounds.

The quantity of milk actually used to produce 1 pound of each product depends chiefly upon the butterfat test of the milk, and this varies in different sections of the country and, to some extent, with the season. *Environment*

Milk is presently being produced on an 8-hour shift at about 50 percent of capacity; ice cream production is running nearly 100 percent of capacity on a 14-hour shift. The production volume of each product varies according to the season, with ice cream output reaching a peak in April, May, June, July, and August, and milk output rising in October, November, December, January, and February.

"Our ice cream capacity is actually rather flexible," said Mr. Hunton. "Right now, we could increase our capacity by as much as 35 percent by not changing flavors as often. To change flavors requires 20 minutes of downtime on the freezer so that it may be cleaned. Still, I can see the time, probably within 1.5 years, when we won't be able to produce enough to meet our needs. One way of alleviating this problem would be to add more frozen storage space, so that we could stockpile in the winter months." Presently, about 50 percent of total ice cream production is vanilla-flavored, 11 percent German chocolate, 10 percent chocolate, 9 percent strawberry, and 20 percent in about eight other flavors.

Superite is proud of its quality products. All products exceed the minimum standards set by the government. For example, Superite ice cream contains 12 percent butterfat by weight, whereas the specified minimum is 10 percent. "We could sacrifice just a little quality and obtain great savings in our production costs," said Mr. Litney, "but in the end, we'd just be cutting our own throats. Our quality is our best promotion."

Management is convinced that "the package sells the product." Recently, Superite introduced double-coated (inside and out) ice cream cartons. Although more costly than normal cartons, they prevent moisture leakage which gives cartons that "bulging at the sides" look. "All the advertising in the world will do no good if a housewife picks up a carton which is slimy to the touch or unattractive," remarked Mr. Hollingsworth. Ice cream bearing the Superite trademark Princess label is sold in round cartons, which are supposed to add to the quality image.

The Nashville market

Superite's main sales effort is aimed at the retail grocery market, since this is where management feels that the most profit is. Virtually every major food store in Nashville handles Superite products. "There's simply no one else around here selling Superite quality," said one retailer. Another retailer, when asked why he thought no one was competing with Superite, said, "Everyone knows that someone's looking out for Charles Litney. He's got this town 'sewed up.' People seem to have more than their share of problems if they try to compete with him."

Yet, few retailers are complaining about the situation. They feel that the prices they pay for Superite products are reasonable, and that the products are good. Many retailers said that they would be willing to handle Sealtest

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products in addition to Superite products, but only because they wanted to give the customers a broader range of selection, not because they were dissatisfied with Superite products. There is only one national chain food store in the city; the rest are locally owned.

In addition to the food stores, Superite sells to hospitals, schools, lunch counters, and various other institutions. Superite bids for the milk contract at the public schools, although there is little profit in this business. The purpose of school sales is to "keep the Superite name in front of the kids." Such sales amount to about \$200,000 per year. School accounts are payable 60 to 90 days after delivery. It would be possible for Superite to bid for the milk contract at a nearby military installation, but since profit margins would be slim, and since the inhabitants would not be long-run potential buyers of Superite products, this has not been done.

"Bid business is a ruthless one. You gain or lose a bid on fractions of a cent per carton. At times, we wonder if this business is worth all the effort, time, and grief it involves," said Mr. Baker. "When it's all said and done, we probably lose money on this business. But what with our production situation on milk, we hang on, but we're not sure how long we should."

Another part of the milk business is the home delivery business. This is more competitive than retail store business. Maintenance of the trucks, labor problems with the drivers, and the detailed records involved are factors Superite considers. Again the management feels that it keeps the name before the public and of course it builds volume. About 45 percent of their milk sales are through home delivery, but tend to be much less profitable than retail store business.

Frequently other dairies whose volume is low will try to take some of Superite's home delivery business away from them. They usually do this by offering discounts for an introductory period to the homemakers. Superite drivers usually match these, and so a small milk war can develop. One device Mr. Starr has found effective in stopping a milk war was explained by him.

"In an area where there is a war, I'll go into a large grocery store where I'm not known. I'll fill my basket and take some of the competitor's milk. When I get to the checkout and the clerk starts to ring up the price, I'll say, 'Hey, what's the matter with you? You're charging X cents for a quart of milk. My sister can get that brand delivered at home for 3 cents a quart lower [the price the war has brought it down to].' At this point, I say, 'Well, if that's what you charge for things here, I don't want any' and I stalk out of the store. This usually makes quite a scene for I always pick a busy time. The retailer then puts pressure on the competing dairy wanting to know why they are underselling him with home delivery business. Since the retail business is more profitable, frequently the competition then reduces the fervor of its home delivery expansion plans."

Superite does not have a formal policy for new product development. "We use the old time-honored method of trial and error," said Mr. Litney. "There are four factors that determine whether or not a product will succeed: (1) there must be a demand for that product, (2) it must be conveniently available, (3) the product must be the best, and (4) the public must be made aware of it through advertising." Mr. Litney said that they depended on flavor and ingredient suppliers for new ideas, and that some suggestions came from employees. The company is presently considering the addition of novelty treats, such as ice cream bars and ice cream sandwiches, to its product line. Similar items sold in Nashville are now supplied by an Illinois firm.

A local advertising agency, Miller-Brown Advertising Company, has handled Superite's advertising for many years. Once a week, usually on Wednesday, a member of the Miller-Brown staff meets with Mr. Baker and Mr. Starr to plan promotional activities. Most advertising is done inside the retail stores and includes displays and "flavor-of-the-month" sales. Each month, one flavor of Princess ice cream is selected to be sold at special prices (usually 69 cents per half gallon). A "theme" is selected for the flavor of the month, such as "Hawaiian Holiday," for Superite's Royal Pineapple flavor. This theme is carried through on colorful posters and displays in the frozen goods section of the stores. This sale is popular with the retail store owners, who report increased sales as a result. Their profit margin remains the same on sale products, as Superite gives them discounts to make up for the lower selling price.

Although the flavor-of-the-month sale is a continuous campaign, more intense "saturation" campaigns are conducted about twice yearly. These include extensive radio and television advertising which is designed to convey Superite's "quality message."

One such campaign served to inform the public about the company's new electronic quality control system for ice cream production. Public suspense was first built up by repeated reference to the letters "EQC," without explaining what the letters represented. Radios blared the letters against an echo background, "E . . . Q . . . C . . .," and newspapers and television emphasized the EQC theme. At the peak of the campaign, EQC was explained to the public in detail. Mr. Baker said that they were not certain whether or not this campaign was successful, since the results were difficult to measure. He did not feel that such advertising had much value.

One of the company's recent advertising successes was a "kiddy auction," in which young children saved Superite bottle caps and labels in order to bid for toys and games. Sales were noticeably increased during this campaign.

Superite has an aggressive promotion campaign for store openings. They usually feature their Princess ice cream and Superite milk. The customer may be offered ½ gallon of ice cream free when purchasing one at the regular 98-cent price. Or Superite can give the retailer a similar "one free with one" offer on milk, but not both at the same opening. These store opening deals are made to all stores likely to carry the Superite line. For some time, stores in the vicinity of the new store have complained to Superite, asking for a special deal at the time of the opening. They don't necessarily want the same deal (for it is quite costly and they had their turn), but feel special arrangements should be made to keep them fairly competitive.

Customers have come to expect specials like this at store openings and stock up to the limit of the sale (usually 2 gallons to a customer). Superite wonders what it should offer competing stores at the time of a nearby opening. Mr. Starr and Mr. Baker worry about this because they want to keep the retailers on their side, especially with Sealtest entering the market.

The case writer asked the marketing executives what their strategy was for the other products (after all it is 20 percent of their business) and home delivery. Mr. Baker replied, "You have us there, I guess. These parts of the business have not been aggressively merchandised. Most of the 'other products' are very profitable and volume has been growing but we've been so busy with milk and ice cream we haven't given them much push. Have you got any ideas on what we should do to merchandise them?"

"Well," the case writer said, "that's an interesting problem and perhaps we can discuss it, but what about the home delivery business?"

"You sure raise questions about things we don't think much about," said Mr. Starr. "I guess we just haven't made exact cost studies on that business. If we did, I suspect profit wouldn't look good on that end of the business, but we'll look into it and think about it."

Recent concern over the company's new competitor, Sealtest, is forcing management to reevaluate its promotional policies. Sealtest is presently conducting an intensive television and newspaper campaign to acquaint the Nashville residents with its products. Mr. Litney thinks that Superite should step up its own advertising efforts to counter the possible effects of the new competition. The matter was discussed at a meeting between Mr. Litney, Mr. Baker, and Mr. Miller, of the Miller-Brown advertising agency, in which the following conversation took place:

Mr. Litney: "It appears as though they [Sealtest] will be hitting us straight on, up and down the product line. As far as quality is concerned, I think our products are slightly better, but most customers probably won't be able to tell the difference. What we need to do is emphasize the quality difference in our advertising."

Mr. Miller: "That's right. What we can do is emphasize the greater freshness of the locally processed Superite products as compared to those transported from other areas, as Sealtest will be. This is something that the customer can readily understand and relate to quality."

Mr. Baker: "I think we're being slightly paranoid about the situation. Sure, people will try the new brand at first, just to see how they will like it. But after the newness wears off, they'll go back to buying Superite. Why? Because we still have the best products. Oh, we might step up advertising a bit at first, but I think an extended campaign would cost more than it would be worth."

Mr. Litney: "Sure, we can count on a lot of customer loyalty. Our prices are reasonable, and I don't think we'll be undercut. But still, we can't ignore competition. For every sale Sealtest makes, we'll lose a sale. It won't be our present competitors who are hurt—they're not selling in the same market."

Mr. Miller: "What I feel we need to do is to begin an intensive campaign very soon that will firmly implant the Superite quality image in the minds of our customers. This will make them more resistant to the Sealtest sales pitch."

Mr. Litney: "One thing is for certain. We haven't got where we are today just by sitting around and letting it happen. If we're going to maintain our position, we've got to act, and act now."

By the time the case writer had concluded his study, Sealtest had already begun to sell in the Nashville area. Predictably, Superite orders fell off moderately. Management was still uncertain what strategy they would employ to handle the new competition.

Profit planning and results

The Dairy Processing Industry reports how the average processor allocates his funds (see Figure 2).

Separate accounting procedures are used for retail and wholesale accounts. Wholesale accounts are processed by a small computer, which automatically

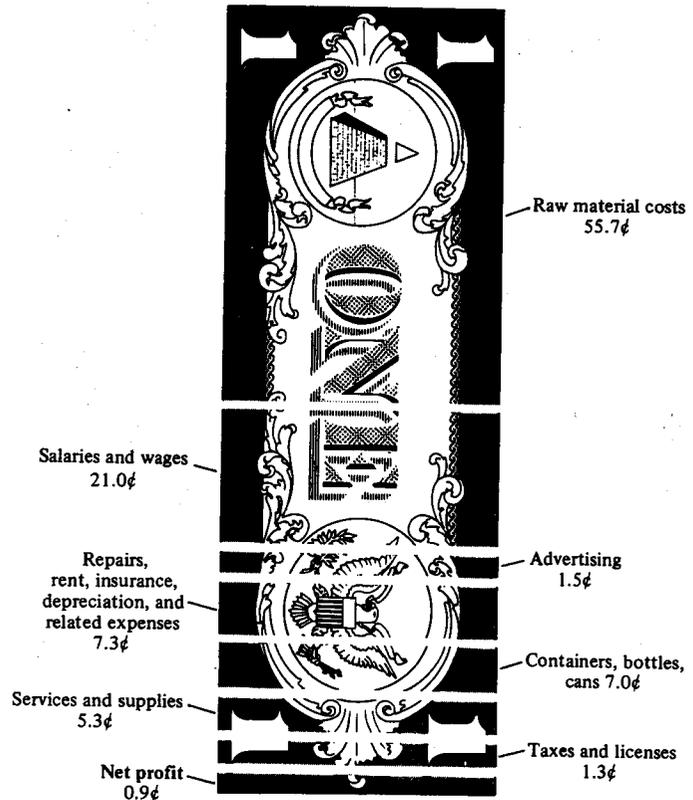


FIGURE 2 ■ How the average dairy processor allocates income.

shows sales, accounts receivable, and accounts payable. A weekly printout breaks sales down by products and geographical sales area. This information is then forwarded to Mr. Starr.

The retail (home delivery) system must be processed by hand since the accounts are too small and too frequently changed to be placed on the computer feasibly. Retail route men play an important role in the accounting process. Each day, they bill customers (billing is done at the time of delivery) and calculate sales per customer and total sales for the day. Records prepared by the retail men are given to the accounting department for further processing.

Most wholesale sales are on credit, payable in 30 days; home retail accounts are paid at the end of the month. Bad debts stem mainly from the home retail sales. This is also the least profitable area of operation. Although retail operations account for 22 percent of total sales, they account for only 14 percent of profits. Mr. Hollingsworth attributes the lower profit margin to the cost of salesmen's commissions and the maintenance and upkeep on the company's 150 trucks. Overall, about 75 percent of costs are direct costs, with 50 percent for raw products and 25 percent for wages. Recent financial statements for Superite are given in Tables 5 and 6.

Annual operating budgets are prepared by Mr. Hunton, who was proud to point out that last year's budget proved to be extremely accurate. Predicted

TABLE 5 ■ SUPERITE DAIRIES INCOME STATEMENT FOR YEARS ENDED DECEMBER 31, 1967 TO 1969

	1967	1968	1969
Sales	\$7,023,456	\$7,650,824	\$8,139,174
Cost of sales	4,675,493	5,104,250	5,447,439
Gross profit	2,347,963	2,546,574	2,691,735
Selling and general expenses	1,829,653	1,988,754	2,111,204
Income from operations	518,310	557,820	580,531
Other income	91,604	93,646	99,732
Total	609,914	651,466	680,263
Other income changes	5,697	7,218	6,394
	604,217	644,248	673,869
Contributions to pension trust	167,888	170,231	172,786
	436,329	474,017	501,083
Federal income taxes	205,960	203,827	216,107
Net income	230,369	270,190	284,976
Dividends paid	103,666	140,499	160,969
Net addition to retained earnings	\$126,703	\$129,691	\$124,007

sales were within \$70,000 of actual sales, with actual selling expenses 3.5 percent under the budget, and general and administrative costs 1 percent under. Manufacturing expenses were 2.5 percent under the budget, and material costs 0.75 percent over.

The company keeps a \$5000 standing balance in every bank in each commu-

TABLE 6 ■ SUPERITE DAIRIES BALANCE SHEET STATEMENT, DECEMBER 31, 1967 TO 1969

	1967	1968	1969
<i>Current assets</i>			
Cash	\$ 423,498	\$ 598,766	\$ 590,074
Accounts receivable (less bad debts allowance)	653,181	750,122	859,372
Inventories	112,375	130,064	150,954
Prepaid expenses	16,873	20,122	21,475
Total current assets	1,205,927	1,499,074	1,621,875
Land, buildings, and equipment			
Land	203,080	203,080	203,080
Building equipment (less depreciation)	1,201,161	1,301,264	1,397,826
Other assets	13,704	11,007	3,075
Total assets	\$2,623,872	\$3,014,425	\$3,225,856
<i>Current liabilities</i>			
Accounts payable	\$ 225,873	\$ 342,154	\$ 372,906
Federal income taxes payable	64,768	82,006	88,309
Withholding and social security payable	21,357	29,620	36,603
Total current liabilities	311,998	453,780	497,818
Stockholder's equity			
Outstanding capital stock	1,447,932	1,567,012	1,610,398
Treasury stock	71,098	73,315	73,315
Retained earnings	863,942	993,633	1,117,640
Total	2,382,972	2,633,960	2,801,353
Less treasury stock	71,098	73,315	73,315
Total stockholder's equity	\$2,311,874	\$2,560,645	\$2,728,038
Total liabilities and stockholders' equity	\$2,623,872	\$3,014,425	\$3,225,856

nity in the selling area. Presently this is 60 banks. Mr. Hunton did not ap
of the practice, but Mr. Hollingsworth defended it, saying that it helped
their public image and stimulated the economy of the community. He a
that if the funds were put in CDs or notes, they would not bring in en
profit after taxes to make it worthwhile.

Environ
Weakness

Mr. Litney, Mr. Hollingsworth, and Mr. Hunton jointly prepare the c
budget. No plant expansion is planned for the near future. In the past,
dairies have been purchased in outlying areas to provide new markets, b
plants proved too costly to operate and were shut down. It is not antici
that any more such purchases will be made.

Eighty percent of the Superite stock, which is sold over the counter, is o
by four families. These include the Baker, Litney, and Hollingsworth fan
and one other family not connected with management. Each family
between 15 and 20 percent of the stock and 20 percent is held by the ge
public in smaller amounts.

Final comments

"All in all, I think we're a profitable and progressive company and will
no problems in the future," Mr. Litney told the case writer as he was
to leave. "After all, Nashville's our home base and we know how to
business here," he said. The case writer wondered if Mr. Litney was right
that.