

Pauline's Pierogi Pleasures¹

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This case focuses on the marketing plan and marketing issues required to expand a business from a small operation catering only to a handful of stores and restaurants to a regionally recognized food provider. Bob has just received his bank loan but is uncertain as to his next move in terms of expanding the trade area and the appropriate channel to follow in doing so. He has a desire to place his product into grocery stores and restaurants but is working with limited resources. The consumer market within which he is operating contains some major hurdles he will have to address and overcome within his marketing plan as well. Bob is at a decision point and is now looking for that 'pie in the sky' voice to tell him what his next strategic marketing move should be.

INTRODUCTION

Pauline's Pierogi Pleasures operated under the mission of preparing and offering the finest Ethnic Eastern European foods available in West Central Florida. Pauline's product offering included Blintzes, Golabki, Kaputsa and Kielbasa but the main item in the product line was the traditional Pierogi. Since taking over the company six years ago, as a part of a personal goal plan, Bob has had the vision of expanding the company from a local distribution company to the pierogi provider for the Southeast United States. Ultimately, Bob wanted to further develop an internet presence allowing the company to deliver directly to the consumer within the continental United States as well as Canada. He recognizes, however, this must be accomplished in 'baby steps' and not all at once. Bob is ready to take his first 'baby step'.

To date, Bob's ability to achieve his dream of expanding the company was dependent upon two major events—approval of a new small business loan and a new marketing plan. With the bank approval of his new small business loan he could fund the expansion of his production facility which removed the first hurdle. However, the second hurdle still existed, the development of a marketing plan that would allow him to expand his distribution. One thing that Bob wanted to keep in

¹This case is designed for classroom discussion purposes rather than to illustrate effective or ineffective handling of an administrative situation. This case is based on an actual company but the names have been changed for anonymity reasons.

check was the value and perspective of the company as he expanded the company to new heights. Those values began when the company originated.

HISTORY OF THE COMPANY

Pauline's Pierogi Pleasures was originally founded by Pauline Gajdzis. Pauline migrated to the United States from a small community outside of Krakow, Poland. Pauline started the company out of her love of a traditional food product known as a pierogi. And just like many other foods based companies in the United States, Pauline built the company out of her kitchen into a very successful small business. After several years of operations, Pauline decided to retire and sell the company to two sisters who had the desire to own and operate a food based business.

Ellen and Rachel successfully took over the company and maintained the traditional Ethnic European Cuisine. The sisters treasured the authenticity of the product offerings and wanted to continue the high-level quality product while retaining the European family traditions within it. As a result, the sisters retained the customer base Pauline had created. Futuristically, Ellen and Rachel had planned to expand the clientele base from the immediate community area to a broader target market to include Central Florida Eastern European Cultural based communities. Unfortunately, after only a short time of operation Ellen and Rachel had to abandon their dreams of business owners after Rachel became ill and was no longer able to work and Ellen was unable to operate the company on her own. That is when Bob entered the pierogi industry.

Bob had a strong business background. Over the years, Bob had worked in sales, quality control, and as a business account manager. Through these various career positions Bob understood the key requirements of operating a successful business. His most recent experiences included quality engineer in new product launch for a parts manufacturing facility, successful completion of a Six Sigma black belt, and various accounting positions using his BA in Accounting. Although Bob had no working knowledge /base experience of operating a food based company, he did have an interest in cooking and enjoyed exploring very traditional and culturally based foods. Consequently, Bob had toyed with the thought of owning an ethnic food based business. So, when the opportunity to purchase Pauline's Pierogi Pleasures arose, Bob decided to pursue his dream of owning a food based business. By following his dream meant he had to uproot his family from the Northeast United States to Western Central Florida, but he felt it was worth the family transition because of the potential success within the company.

WHAT IS A PIEROGI?

A pierogi was best described as a piece of pastry or dough that was stuffed with various ingredients. Going back to the tradition of the product, the original pierogis

were normally stuffed with mashed potatoes, spinach, sauerkraut and/or variety of cheeses. The pierogi was the ‘worker’ or ‘laborers’ meal so consequently did not include meats as they were not affordable, however, when available, some meats would be an ingredient in the pierogi. These meat-based pierogis were considered a delicacy and used mainly for special occasions.

If one has not experienced eating pierogis, a comparison would be ravioli. Similar to a pierogi, raviolis are two pieces of dough normally stuffed with cheese or meat while the traditional pierogi is stuffed with mashed potatoes and/or sauerkraut. While the ravioli was normally square in shape, the normal shape of a pierogi was more like a crescent half-moon. Pierogis came in basically two sizes – large and small – with two large pierogis considered a standard meal. The large pierogi was an entree style or size while the smaller pierogi was normally used for dessert or snack type of product.

PRODUCT OFFERING

When Bob took over the business, the product offering was limited to just a half dozen flavors of pierogis. From his personal experience of growing up in a northeastern community with a strong Eastern European culture, Bob knew he could expand the present product variety while maintaining the traditional ethnic character. The product line offerings that Bob has created include:

- breakfast selection consisting of three different pierogis;
- lunch and dinner entrees consisting of ten different stuffings some of which overlap with the breakfast flavors;
- dessert offerings consisting of two fruit flavors; and a
- ‘Create your own’ option requiring minimum production quantities.

PRODUCTION PROCESS

Prior to the approval of the new business loan, his production configuration allowed for production of 16,600 dozen pierogis a year which allowed him to meet his current demand but did not allow beyond the traditional lines and markets. With the expansion, he would be able to produce 950,000 to 980,000 dozen per year at full capacity. This would allow him to expand product line options while he pursued his goal of expanding into new distribution systems, specifically the grocery retail branch.

In the manufacturing of the basic/traditional pierogi, the dough/pastry was stuffed then boiled until it is fully cooked and ready for packaging. Then the pierogi could be sold as ‘fresh’ or flash frozen and packaged. The consumer then further prepared the pierogi by steaming, baking or sautéing on a grill with various seasonings and spices providing additional flavoring. In the frozen state, pierogis had a shelf life of 6 months.

The 'Create your own pierogi' option required a variance from the standard production process described above. With this option, the consumer could provide fillings or, like a pizza mix, the standard stuffing offerings to satisfy their individual taste. If the consumer creates their own, there is a longer turn-around on the order and there are also minimum quantities required. Since Bob was working with a single production line, when doing the 'create your own' pierogi he would have to suspend his normal production operations, clean the machines, produce the product and then re-clean the machines. Because of the additional labor, the 'create your own' pierogi was priced higher than the other pierogis. He had found pierogi option to be an attractive aspect for some of his current business clients and hoped to pursue this with grocery clientele as well.

Bob had developed a line of appetizer pierogis which were smaller than the 'traditional pierogi'. These pierogis broke away from the traditional pierogi filling and focused more on traditional appetizer flavorings. His short list of flavors included Philly cheese steak; sausage, pepper, and onions; fajita; buffalo chicken; BBQ; and cheeseburger. The appetizer pierogi was a little smaller in size than traditional pierogi but the cost per dozen would remain approximately the same.

With the current health movement Bob was also considering offering a pierogi that no other company offers: gluten free. This would require him to completely shut down production and do a complete wash down/sterilization before making the gluten free pierogis, or he would have to have a production line solely dedicated to making the gluten free pierogi. Either way there would be additional production costs along with higher materials costs since gluten free flours were much more expensive than traditional flour. Bob believed this move would put him in strong market leader type position. He was waiting to see how long term the organic food movement actually was before he considers creating an organic line of pierogis.

CURRENT AND FUTURE DISTRIBUTION

At best, the current distribution system could be described as extremely fragmented. The key point of distribution currently was the store front of his operations. Through this facility, the general public could purchase fresh pierogis over-the-counter to take home and prepare for their family. Bob also had an e-commerce presence but it was receiving minimal traffic. It was through this site Bob hoped to receive business-to-business orders and to reach out to individual consumers, but he had not experienced the level of success hoped for or expected. Historically, the over-the-counter sales contributed the most in sales. In addition to these sales Pauline's had minimal distribution through a few small neighborhood grocers. These outlets had maintained a consistent base line of sales but had not expanded in terms of overall sales. A breakdown of his current sales would be 75 percent to

the over-the-counter market and 25 percent from the other distribution approaches. This did not provide the long-term stability that Bob desired for his company. As a first step, Bob desired to increase his grocery retail distribution options. In the future, he would then expand into other areas of commercial distribution. As a goal, Bob would like to develop the business to achieve a sales breakdown close to the following:

- 20% of sales from 'direct' consumer purchase evenly split between over-the-counter and eCommerce,
- 40% of sales through grocery retail with no one grocer maintaining more than 50% of this category, and in the future,
- 40% of sales through restaurant distribution providers.

Bob has also attempted to enter the restaurant market and has experienced limited success. While the traditional pierogi line had not been successful, offering the 'create your own' option had been successful. He currently distributed to two restaurant chains that have developed their own specialty stuffings and have required Bob to guarantee he will only produce those product options for their restaurant. While Bob was currently committed to providing product to these two chains, rather than expanding in this 'specialty' product venue he felt his next strategic move should focus more on the grocery distribution opportunities first because of the growth potential in this market. The grocery distribution avenue required less production costs and offered greater efficiencies.

PROMOTIONAL SUPPORT

Much like the other strategic components of his marketing plan, his promotional strategy was extremely limited and lacking in sustenance. Bob had been highly dependent upon word-of-mouth from his OTC customers, providing limited growth. Much of the word-of-mouth had been propagated through churches and schools, and unfortunately, Bob has exhausted most of those venues.

For his B2B customer, since there was not a formal sales staff, Bob personally participated in local trade shows and made limited sales call. As the case with many small businesses, a major limitation was the lack of funds to create and support a salesforce. In addition to his limited sales activities and, when possible, Bob had provided product at other business focused functions (e.g. Chamber of Commerce events, fundraiser events, etc.) which had produced some one-time sales customers/orders. He had not realized any large gains from these business-based activities. Bob realized he needed to be more creative and focused in the promotion of his products.

After reading a few articles in the local paper and business journal, Bob decided to dabble in the social media arena to start promoting his product. Within this new

venue, Bob established a website with a twofold purpose. First, he wanted to provide an informational point for people who were interested in learning more about pierogis. He had discovered that, unlike in the northeast, few people in Florida and the southeast are familiar with pierogis. He hoped to possibly take orders of his product from the website. Bob had hopes and expectations that the creation of a website would be a catalyst to sales, not only in the southeast area of the United States but throughout the country.

The second purpose was to provide a link source to his newly formed social media sites. He had created a Facebook, Twitter and Pinterest presence. However, the frustrations of trying to maintain the social media sites far outweighed the results. Annoyingly, Bob found that there was an existing Facebook page associated with the company. After several attempts to contact the former owners, to no avail, and Facebook's refusal to deactivate the page, Bob had to abandon his desired page and develop a new name for his site. The last time he checked his Facebook link on his webpage it was not functioning and he could not figure out why. His Twitter link was functioning but after a year only had 428 tweets, 298 followings, 75 followers and 11 favorites. Because of the responsibilities of being the sole marketer and owner of the company Bob did not have the necessary time to devote to these social media sites. It had been over six months since he had taken time to Tweet, his Pinterest site had no participants or pins, and he had been unable to update his Facebook or webpage. Bob grotesquely underestimated the necessary time and energy to properly maintain social media sites.

Internally, his website was also replete with link issues. He had established the site so people could choose the type of pierogi they wanted to investigate. Two of the links from the homepage to the subpages were not functioning. Much of the information provided was dated and very rarely updated. He had actually received some posts in his blog area inquiring if the company was still open. Since Bob had not responded to the posts, it was likely the customers assumed the company was no longer in operation but had not taken down the website.

PRICING STRATEGY

Bob's pricing strategy had been quality/value-priced based. Bob had been trying to develop a reputation and perspective of a high-quality item. His standard price for one dozen pierogis had ranged between \$5 and \$7, mostly at \$6 per dozen. The 'create your own' pierogi started at \$10 per dozen. Depending on the ingredients used in the pierogi the price might be as much as \$12 per dozen. These prices were a higher than the prices of the main competitors. Depending upon the ingredients, the competitors' prices ranged from \$2.79 to \$5.39 per dozen in most grocery stores. Based on his current production costs and overheads, he did have some

room to manipulate price, but he also wanted to make sure that his pricing strategy reflects the quality of the product. While he has completed no in-depth research or analysis, he personally believed he offered the highest quality pierogi on the market and believed his price should reflect as much. A breakdown of his cost structure revealed total variable costs of \$1.87/dozen and total fixed costs of \$0.20/dozen. Bob had a desired gross margin of 45 to 55 percent.

His current annual marketing budget, prior to his expansion, allotted for:

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| • Advertising | \$20,000.00 |
| • Merchant Service Fees | \$2,600.00 |
| • Sales Promotions (Samples) | \$850.00 |
| • Sales Expenses | \$35,000.00 |

COMPETITIVE ENVIRONMENT

Pauline's Pierogi Pleasures was the only manufacturer of fresh pierogis in the West Central Florida area. There were several fresh pierogi manufacturers in the Northeast United States that operated within a local market and most did not have the capacity or capability to expand beyond their current market area.

Pauline's main direct competition was from two national distributors of pierogis. From a product offering, the fillings were basically the same and the size was comparable to Pauline's large pierogi. The largest competitor was Mrs. T's Pierogis. On the company website, Mrs. T's showed 12 different varieties but normally only three or four were actually available in the grocery frozen food section. Pauline's variety matched closely with Mrs. T's.

Another major competitor was Riseman Pierogi. One of the differentiating factors with Riseman was the organic feature of their product over the other products. This product was closest in price to Pauline's since it was a more expensive organic product. In the local market, most retailers only carried one flavor of the Riseman pierogi.

A differentiation strategy Bob had considered following was to offer his product in the grocery store as both fresh and frozen. Following the guidelines established by the USDA, he could prepare and sell his product labeled as fresh if he did not flash freeze it. In other words, once he made the product, even though it was parboiled, the product could be labeled as "fresh" and sold as such through the meat counters of the grocery store. By using this approach, Bob would be able to maintain his quality image and differentiate himself from the competition. A second option would be to sell the product as "Fresh but Previously Frozen". However, Bob preferred to not associate the counter product with the frozen image.

ENTERING THE GROCERY INDUSTRY

The marketing plan needed to be developed that would allow him to enter the grocery retail industry that maximized sales and profits while maintaining the values and perspectives of the company. With the current reputation of high quality and adhering to true Eastern European culture, Bob wanted to place his product in high-end grocery retailers such as Publix's, a regional grocery store chain known for its high-quality customer service. Bob realized there were issues he must first address to distribute his product in this type of grocery retailer. Some issues he had pondered were:

- What should he do in terms of his current promotional plans?
- What would a point-of-sales program look like for his product?
- Should he enter with just the freezer line of products or should he also pursue the fresh product line as well?
- How can he make his social media presence achieve his desired goals and also support the entry into the grocery retail environment?

REFERENCES

USDA Website (www.fsif.usda.gov), "Fresh, "Not Frozen" and Similar Terms when Labeling Meat and Poultry Products", retrieved September 1, 2015