



Partnership for Innovation in Education

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MADISONO'S GELATO & SORBET

Madisono's Gelato & Sorbet CEO Matt Madison is looking to develop additional gelato flavors, based on customer data, cost accounting and his production line capabilities. Can you help fulfill this assignment?

Situation

Matt Madison scanned his production facility as each hand-packed pint of gelato was packaged, boxed, and placed in the hardening cabinet. Several recent events caused him to take another look at his expanding line of handcrafted desserts. As Founder and Owner of Madisono's Gelato & Sorbet, he and his production team just returned from a national trade conference where new flavor trends were being introduced for the summer season. After scanning his production schedule, he felt introducing a new product line of gelato might energize his sales and offer new distribution opportunities with large grocery stores like Kroger.

Graeter's, a major regional competitor, had recently launched a new gelato line, and Mr. Madison was concerned about losing any market share. He wondered if he could introduce an entirely new line of flavors with his existing budget and facilities. As Mr. Madison considered his current product line, he realized many of his flavors have been around for 5 years without any changes. Mr. Madison flipped through his current sales numbers, and wondered if it would be possible to create new "boutique" seasonal flavor lines, while also maintaining his financial goals, production output, and ingredient costs in the ever-changing flavor market.

Lost in thought, Mr. Madison hurried to join his weekly Marketing Department Team Meeting, committed to asking his employees to begin developing a new gelato product line that could be introduced in 6 months.

Background

Gelato first originated in Sicily, Italy in the 16th century. The architect Bernardo Buontalenti is credited with creating the egg-cream gelato. However, Francesco Procopio dei Coltelli first introduced it to Europe, becoming the first gelato businessman to sell it outside Italy.

Historically, the secrets of gelato were handed down from father to son. Young men wanting to learn the craft would spend years as apprentices. Recipes and techniques were perfected over the centuries. The best gelatos still use traditional handmade techniques that are produced in small batches. The ingredients used in making gelato are nearly the same as making ice cream. Gelato is made using milk and sugar. Most gelatos also use an egg cream base that is made from egg yolks. An assortment of added ingredients are introduced to flavor the egg cream. Fruits, nuts, chocolates, and even herbs and spices can be introduced to give the final product a unique flavor. Sorbet is dairy free and features the use of fruits and fruit juices.

Gelato and ice cream differ in one very basic way. Traditional methods of gelato production feature less mixing, and thereby produce a product with less air (fluffiness) than ice cream. Chefs consider gelato has having a more dense and intense flavor, with a richer taste. However, most people would be surprised to know that gelato actually has fewer calories and less butterfat than ice cream. By regulations of the U.S. Federal Department of Agriculture, for a frozen dessert to be qualified as a gelato, its fat content should be less than 10%. American-style ice cream typically contains 10%-15% butterfat compared to gelato with its 5%-8% butter fat.

The craft of making gelato is a complex system of steps. Gelato artisans employ engineering, chemistry, technology, and food science to create the perfect combination of flavors and texture. In fact, producing gelato is so specialized that only the makers at the “top of their game” can expect to continue in the business.

Since gelato traditionally is crafted in small batches with premium ingredients, it is sold at higher prices than ice cream. Gelato is often sold in smaller markets and specialty stores. Recently, however, some larger manufacturers have come into the gelato market allowing for a lower price point and greater availability. This can make it difficult for local companies to compete. These companies need to stay ahead of the trends and marketing to keep their product viable.

Company Origin and Background

Madisono's Gelato and Sorbet was Cincinnati's first gelato company. Since Matt Madison (a 2004 *Food and Wine Magazine* Tastemaker) founded the company in 2006, Madisono's established itself as a company dedicated to producing highly crafted, great tasting gelato. Gelato and sorbet is produced in a small production factory in Glendale, Ohio.

Not adverse to the imaginative and unusual, Matt has introduced Sasquatch as the company's mascot, saying “We are small company, but we are determined to make a large impact on the frozen dessert category.” Perhaps also Big Foot serves as a testament to Madisono's quest to maintain quirky curiosity in

developing new products and flavors for the company. Madison's product is sold in a many different places, including regional stores such as Bigg's and Whole Foods Market, and it is served at local restaurants and citywide events.

Following Italian tradition, Madison's is a father/son partnership. As an entrepreneur who began a regional fruit and vegetable distribution channel for restaurants in the mid 1950's, Mr. Madison's father works alongside Matt, and shares his passion to develop new opportunities in the food industry.

And that passion can be seen in many different ways! In fact, Matt Madison first discovered how to develop gelato in a cooking class! After he perfected the recipe and technique, he developed new flavors that he tested with his family and friends. He received such a great response; he began to introduce small batch productions to sample it at restaurants. Customers and chefs asked for more samples, and Matt decided this was an idea that might help build a new company. Matt says, "I had one restaurant owner taste my first product, and he immediately sat down and ate the whole pint. He wouldn't even let me leave the restaurant until I promised to make a dozen pints for him the next week."

The Market for Gelato

Consumer demographics are one area where Mr. Madison admits that he is not up to date saying: "I'm a small business person: I do everything! I don't have much time to visit stores and taste test any random buyer. I just don't have the time -- although I realize that I might be missing out on some great new flavors or feedback from my customers." Although focused on product quality and community engagement, he has not gathered any data for types of consumers who like his products, or how he might create something even better. This is one area where research could provide important information on sales and profitability for the company.

In general, gelato is considered a fine food, which commands a higher price and isn't typically a kid-friendly product. Gelato is priced roughly 25% to 50% higher than premium ice cream. It is also widely unknown to the Cincinnati area, even though there are several large companies that offer gelato. Despite this competition, Mr. Madison is confident that Madison's will benefit because of increased product awareness, eventually driving customers to his store in search of quality. Matt says, "I have never targeted kids in my advertising, because typically my gelato is too expensive, and it has adult-sounding flavors. But now my own kids are getting older, I see that tweens help drive what their parents purchase in the grocery store. I think we really need to begin reaching those kids in elementary and middle school."

According to *Wall Street Journal*, (11/12/2013, Lindsay Gellman), Gelato and sorbet churned out a combined \$113 million in sales for the year ended Sept. 28, 2013, a 90% increase over 2012, according to market-research firm Spins, whose data excludes Wal-Mart and Whole Foods stores.

Product

At Madison's Gelato and Sorbet, Mr. Madison oversees the creation of new inventory crafted from scratch each weekday in a small production facility. Just

like traditional gelato, Madisono's Gelato contains less butterfat than ice cream while maintaining a similar taste and texture, but processed in a way that introduces less air, making for a more dense and flavorful product.

Madisono's produces more than fifty gelato flavors and fifteen sorbet flavors for customers in the retail and restaurant industries. Madisono's Sorbet flavors also offer vegan and gluten-free options and they are always excited to create custom orders to fit customer's needs. Madisono's Gelato and Sorbet are sold to the public in one-pint packages. Four-liter tubs are also available to restaurants for their use in recipes and deserts.

The gelato base is made on site with a fifteen-gallon vat pasteurizer and all of the sorbet bases are made from scratch in sixteen-liter batches. This process makes Madisono's unique in the Cincinnati market. On-site pasteurization means that the product is truly made from scratch and never from a mix. This allows for complete control of the ingredients that go into the product. Madisono's gelato is considered an artisan craft in that it takes more time and skill to create.

Madisono's delivery is completed through DSD – direct store delivery, where each delivery is made by Madisono's staff. Due to the small batch production and direct delivery Madisono's is not stocked in large “box stores”, like Wal-Mart. To compete in a large store chain production would have to increase beyond the scope of the company.

Competition

Madisono's handmade, unique, and fresh flavors differentiate it from its competitors (see attachment). There are several national brands that create a gelato line. Large companies such as Breyer's and Haagen Dazs have introduced their product lines in major “Big Box Stores”. Locally, Graeter's recently introduced their own version of gelato in their stores. A strong brand image and marketing campaign is critical to the success of any new product and to the company.

Breyer's, a large national ice cream company, has recently introduced a gelato line with four flavors: Vanilla Carmel, Raspberry Cheesecake, Tiramisu, and Triple Chocolate. Breyer's is mass-produced and sold in grocery stores across the United States.

Another national company, but perhaps a bit more upscale and traditional is Talenti. Talenti has a large line of exotic flavors that are produced on a larger scale than Madisono's. Talenti's clear plastic pint package with a screw-on lid is more upscale than the traditional cardboard pint. And with flavors like Sea Salt Caramel, Black Raspberry Chocolate Chip, Toasted Almond, and Caribbean Coconut.

Local company Greater's was started in Cincinnati in 1868 by Louis Greater, where he began selling ice cream in the street market. A local company began their gelato line at the beginning of 2014. They make 4

different flavors, Carmel Truffle, Dark Chocolate Truffle, Hazelnut Truffle, and Vanilla with Milk Chocolate Truffle. Graeter's Gelato is made by hand one 2½-gallon batch at a time, and sold in 1-pint containers. Their gelato line can be found in their community store as well as larger "Big Box" stores. Their product line can be found in 40 retail stores and ship over 200,000 pints annually for online mail order sales. Graeter's can also be found in more than 6,000 grocery stores in 46 states. Kroger will be the first grocery store to sell the new lines, beginning in late January, and they will also be available for home delivery online.

Aside from companies who are turning out gelato, Madisono's is in competition with regular ice cream makers as well. Several ice cream companies have produced and marketed more "high scale" lines of ice cream. There is also an increase in frozen yogurt sales marketed to adults. More complex ice cream and frozen yogurt flavors are competing part of the market share. However, these flavors and products are being marketed to the adult population. Matt wondered: "Would kids be interested in eating gelato? Children in Italy love this ice cream, but it's typically produced and marketed to a more sophisticated consumer in the United States. Could I develop a fun, entry level flavor line just for tweens and young adults?"

Research and Development

Any new product or change in product comes only after significant market and consumer research. Consumers of gelato and sorbet are diverse, spanning all ages and demographics. Any new concept will need a target audience and strategy to market to it. Launching a new concept or flavor can be risky. It costs both time and money and can deliver unexpected results. A company's brand and image can be either enhanced or damaged because of a new idea or strategy.

Research for a new gelato/sorbet concept begins with gathering information from consumers and the market regarding flavor trends and changes in culture. Other research involves finding out where other companies are heading with their product. At Madisono's they often research current trends in cooking and popular new spices. They will taste the new fruits and flavors being served at restaurants. They will even observe the new cocktails and drinks being created and served in New York. Locally, markets and stores are looked at to see what new, natural fresh juices are being offered and purchased by consumers. Always ready for an adventure, Madisono's is ready to try out new ideas and concepts that customers might propose. With research, new ideas can be brought into reality. The Development Team at Madisono's must consider why a new flavor is not in the market. Is it a flavor that could sell but no one has taken the risk to try it? Or has it already been tried and failed? It can take months for a new flavor to go from an idea to a finished product.

Madisono's research begins with family and friends as testers. Neighbors and current customers are asked, "If you could make your own flavor what would it be?" All of the data helps to move the idea to the next level. At the end of the

process there will be many ideas, names, and concepts developed. After ideas are developed, they are weighed along with cost analysis to determine sustainability. If a flavor is not performing well, the determination is made whether to replace it with a new concept.

Called “Focus Groups”, Madison’s gathers small groups of people together to discuss the flavor, branding or the new “look” of a product. Matt typically uses focus groups later in the process so that he can narrow the focus to a few select flavors. At this point, a more stringent cost analysis for each proposed ingredient is performed (Appendix A). Small batch runs are done to see how the concept can be produced with all the other current flavors in the production line. On a production line, some ingredients just don’t work out: cookies might get soft, colors might change, candies might melt, etc. The new product is then put into production and a marketing strategy is developed.

Sales and Marketing Strategy

The last stage is the development of a marketing strategy. Advertisement and marketing materials such as posters, coupons, and in-store “shelf talkers” (freezer door labels) are developed for the new flavors. Usually promotion of a new product begins thirty days before the grand release. Once the new flavors begin production and are stocked in the freezers Mr. Madison and his staff take orders and make deliveries.

One of the most important pieces of creating a new flavor is creating its name. The name on a product must draw in a potential customer, and tell them what they can expect to taste. If consumers are not sure what the gelato contains, they won’t purchase it. But a clever name can draw interest in the product. As Matt says, “With this business, half of my success depends upon developing a name that is fun and quirky, but also describes the flavor in a way that my consumer can almost taste.”

Madison’s is in the process of developing a marketing plan. Mr. Madison maintains a blog-style website to provide information on current Madison’s events and menus. (<http://madisonosgelato.blogspot.com>) Businesses and restaurants that order a special blend often provide advertisement for Madison’s at their location. Much of Madison’s current marketing plan is centered on social media like Facebook. They also attend as many community and charity events as possible to give away free samples. Mr. Madison believes that this service will get his name and brand into the community and create an emotional connection with the community. Mr. Madison also believes that this type of marketing will help stir awareness of gelato in general. Madison’s long-term goals include becoming a company with a recognizable brand.

Cost Analysis

Many factors affect the cost and profitability of a new product or concept. Mr. Madison must consider the cost of raw ingredients, equipment costs, maintenance, rent, power usage, employee wages and benefits, insurance, marketing costs, vehicle costs, shipping, delivery, and many other incidental charges that go into keeping the company functioning.

Mr. Madison must account for all of these charges, and still keep his prices competitive in the market. When developing a new flavor, it is important to look at the price points for the ingredients. These prices can sometimes change based on availability and seasons. For example, any given flavor may perform well in summer, but not in winter. While creating a new flavor that people might enjoy is important, overall profitability and profit margin are critical.

The Problem

Matt Madison has asked you to create either an entirely new gelato product line, where he will stay ahead of his competition and stay fresh in the current marketplace.

QUESTIONS TO BE RESEARCHED:

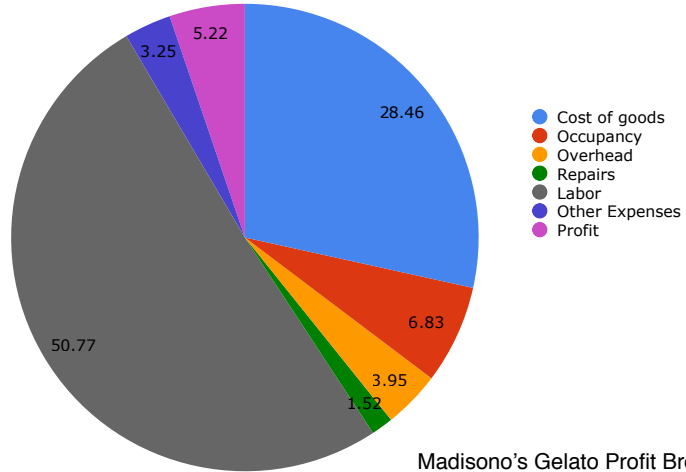
- What are some of the trendiest colors and dessert flavors in the past year?
- What are the biggest issues facing Matt Madison?
- How can Matt Madison determine his most cost-effective new flavors?
- How can Matt Madison determine how to allocate the costs to each department that helps makes his product?
- What factors might Matt Madison consider to be most important as he decides which flavors to produce?
- What might limit the success of Matt's new product line, and how can he monitor its popularity among his consumers?
- If Matt Madison raises his prices, what will happen among his competitors?
- What are the economic advantages and disadvantages of creating more new flavors of Madison's gelato?
- What else can Matt Madison produce besides gelato? If he uses his production line at a higher capacity, is that good? Why or why not?
- If Matt Madison would like to have his product sold at supermarkets like Kroger, what might he have to do to serve their larger capacity needs?

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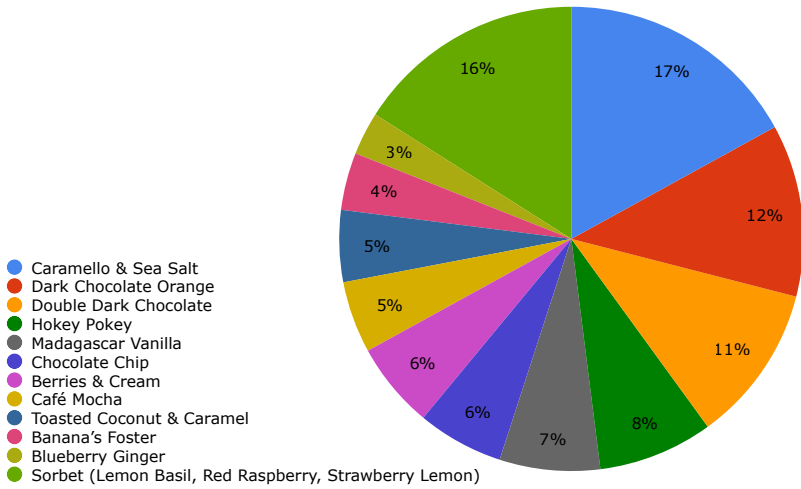
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Madisono's Gelato Expenditures Breakdown



Madisono's Gelato Profit Breakdown by Flavor



INGREDIENTS LIST

Description	Unit Price
Milk	\$0.02 / fl. oz.
Dry milk powder	\$0.27 / oz.
Cream	\$0.30 / fl. oz.
Bananas	\$0.86 / lb.
Caramel	\$0.30 / oz.
Cane sugar	\$0.25 / oz.
Brown sugar	\$0.08 / oz.
Vanilla extract	\$2.00 / fl. oz.
Raspberries	\$0.25 / oz.
Blueberries	\$0.11 / oz.
Ginger	\$0.45 / oz.
Coffee beans	\$0.94 / oz.
Sea salt	\$0.15 / oz.
Chocolate	\$0.80 / oz.
Coconut	\$0.20 / oz.
Lemon juice	\$0.10 / fl. oz.
Strawberries	\$0.16 / oz.