



## AMB303 INTERNATIONAL LOGISTICS Assessment 3 - Semester 1 2021

### Case-Study

**“SALSA-CREAM” (SAC)** is a spin-off venture (fictitious) from “El Sin Rival”, an existing ice-cream company from El Salvador. The head quarter and main production facility of SALSA-CREAM is in San Salvador, from which they operate in medium scale throughout Central America. SAC currently license the right to produce 150 metric tons per annum of El Sin Rival’s premium ice-cream (maruenge-type soft sorbet) in their production plant which currently are underutilized due to the many societal and market challenges in that region. The sorbet comes in different flavours mostly unique to El Salvador. SAC has recently expanded their business successfully to the U.S on behalf of El Sin Rival and in general taken the role to become their preferred international partner.



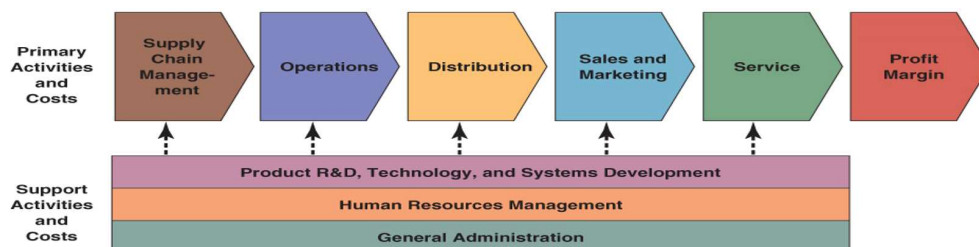
<https://www.latimes.com/food/story/2019-09-14/el-salvador-sorbet-el-sin-rival>

While this business model has been financially successful, they lack the necessary skill sets to embrace further international opportunities. At large, they lack understanding of logistics, the nature of international business and operative management skills. To enable an international expansion, SAC hired a new CEO, Mrs Sue, a former executive of an Australian FMCG retailer with >15 years of IB experience in the FMCG marketplace. Sue have used her network to complete an IPO (listing SAC on the Sydney Stock-Exchange) and re-organized the SAC team hiring a completely new Top-Management-Team (TMT) with FMCG specialists using a geocentric HR approach. The new TMT have been tasked with a grand expansion plan. This is where you enter the picture: you have been hired as the International Operations Manager (OM). The OM position reports to both the CEO and the CMO due to SAC’s matrix-organization. The new TMT consists of:

<b>Title</b>	<b>Name</b>	<b>Nationality</b>	<b>Global Responsibility</b>
CEO	Sue	Australian	Chief Executive Officer
CMO	Girg	Hungarian	Chief Marketing & Sales Officer
CTO	Ji	Chinese	Chief Technology & IT Officer
CFO	Jesus	Mexican	Chief Financial Officer
OM	"You"	[your culture here]	International Operations Manager

The IPO provided SAC with AUD \$63 million of which \$30 million is allocated towards the first expansion phase. Sue have decided to enter six countries in the MENA region in four years. The target countries are Morocco, Algeria, Tunisia, Egypt, Jordan, and Saudi-Arabia. You will relocate to Cairo as an expatriate for three years to: start up SALSA-CREAM's regional HQ; to create needed operations capabilities; and to successfully commence operations in the first-priority start-up market Egypt. You need to plan and design the operations in Egypt so that it enables a later expansion into the other countries (scalability). Your potential funds (as described above) in local currency is Egyptian Pounds (EGP) £315 million.

Your S.M.A.R.T objective is to erect a solid supply-chain with quality operations- and logistic systems covering the Egyptian needs in form of securing production capacity (at Home or in the Host Market), distribution capability, and sales capability (i.e., you need to address *both* the input side, *and* the output side of the value-chain). Once the Egyptian operations are productive it must be scalable to successfully enable sales and distribution in the other five target markets. You therefore need to ensure to meet the business metrics: to supply 225 metric tons of sorbet per market and reaching sales revenue of £265-310mn EGP the second fiscal year (FY2).



The above capacity is equivalent to 1,800,000 servings of sorbet (approximately). The strategy is to sell directly to the ultra-premium segment (high-quality high-end restaurants located in luxury hotels) who in turn sell these deserts to their guests. This is expected to generate an annual EBIT (operating profit) of \$10-15mn AUD for SALSA-CREAM (representing a net profit target of \$7-9mn AUD). Remember to convert monetary components and performance outcomes measured in EGP to AUD (and vice-versa) at the provided exchange rates. Expect that similar projections, performance, quotas, and outcomes etc. applies to the other target markets as well. The approximate wholesale price is projected to be \$12-16 AUD per serving (SKU) at a recommended retail price (RRP) of \$24-30 (approximately) per serving.

Conducted market research displays a strong market potential for SACs products in the MENA region indicating a sales composition for the three selected products. The Tamarind flavoured sorbet is expected to deliver 10% of the sales, the Jocote flavour 30%, and the Arrayan flavoured sorbet the reminder. They all cost the same at a RRP range of >£300-£340 EGP (i.e., the B2C level).

The mainstream ice-cream industry is globally operated by large multi-national companies (MNC's) that enjoy almost an oligopoly status (e.g., Wall's or Nestle'). While the end-user always being a consumer (B2C) your business transactions will always occurs in a B2B format (business with the retailers). Despite SAC being a niche-player, success in this industry is dependent on strong customer service and relationships, strong supplier relationships and excellence in logistics. To compete in the shadow of giant MNCs with SAC's luxury niche-products, there is a discussion among the TMT of how to best enter the Egyptian market. The following entry modes have been discussed:

**Alt. A:** Expand the Salvadorian operations by 300% and export FGI directly to Egypt, or

**Alt. B:** Set up a Wholly owned Subsidiary (WoS) including a purpose-built sorbet production plant in Cairo with five times the current maximum capacity of the Salvadorian plant, or

**Alt. C:** Set up a Joint-Venture (JV) with a much larger but low-cost, low-end focusing ice-cream company located in Marrakesh, or

**Alt. D:** To acquire and convert a Medina based yoghurt producer with similar production capacity as the Salvadorian operation.

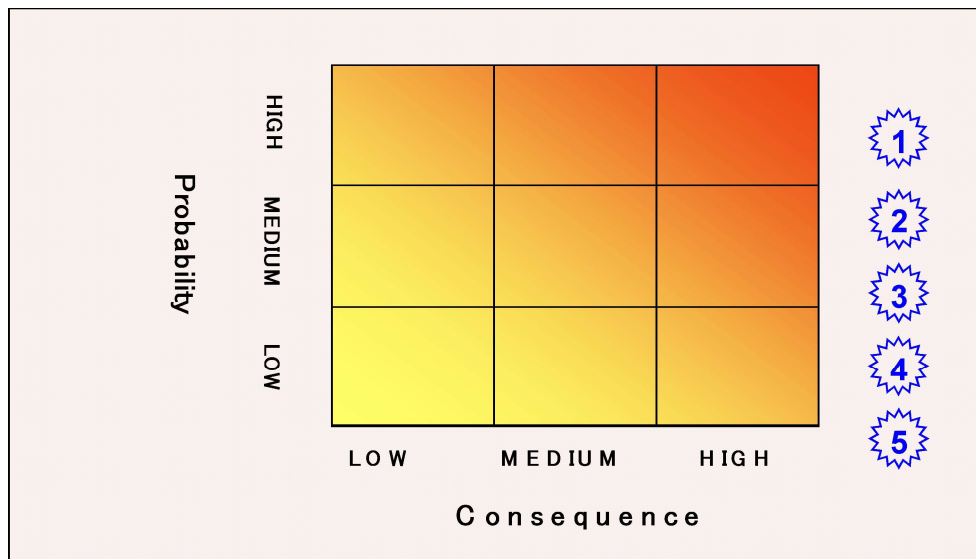
While discussing these options as potential avenues that each could be a good option (or not), the only decision made is to avoid C and D. The rest is up to you. Since *you* are the new OM and responsible for the results *you* must now assess the reminding options and make all the decisions for this international business expansion. Your job is therefore to make specific, detailed, and justified decisions based (among other things) on your 'Income Statement' and 'Strategic Profit Model' predictions. In addition to all the things you now must do, you also need to complete a Risk Assessment (RA), a Procurement Tactic Assessment Plan (TAP), and draw a comprehensive model of the finalized value-chain (covering all components thereof). Comment on its strength and weaknesses. Remember, the £315 million EGP investment is *your* responsibility!

Assume you will have a local staff of 33 FTE at your disposal (monthly salary £9,800 per FTE) to get your MENA expansion operative. Assume that your team (the staff) have the needed skills sets and language capability (English and Arabic) so that they jointly are capable to perform the different organizational functions and tasks you decide upon. Note that salaries resides outside your budget responsibilities. Other HR costs to include might be listed in the spreadsheets.

Additional operating information to this case-study is provided in the excel-spreadsheet(s). Finally, remember that your decisions should not rest upon costs or profit outcomes alone.

Good Luck with your assignment!

## RISK ASSESSMENT



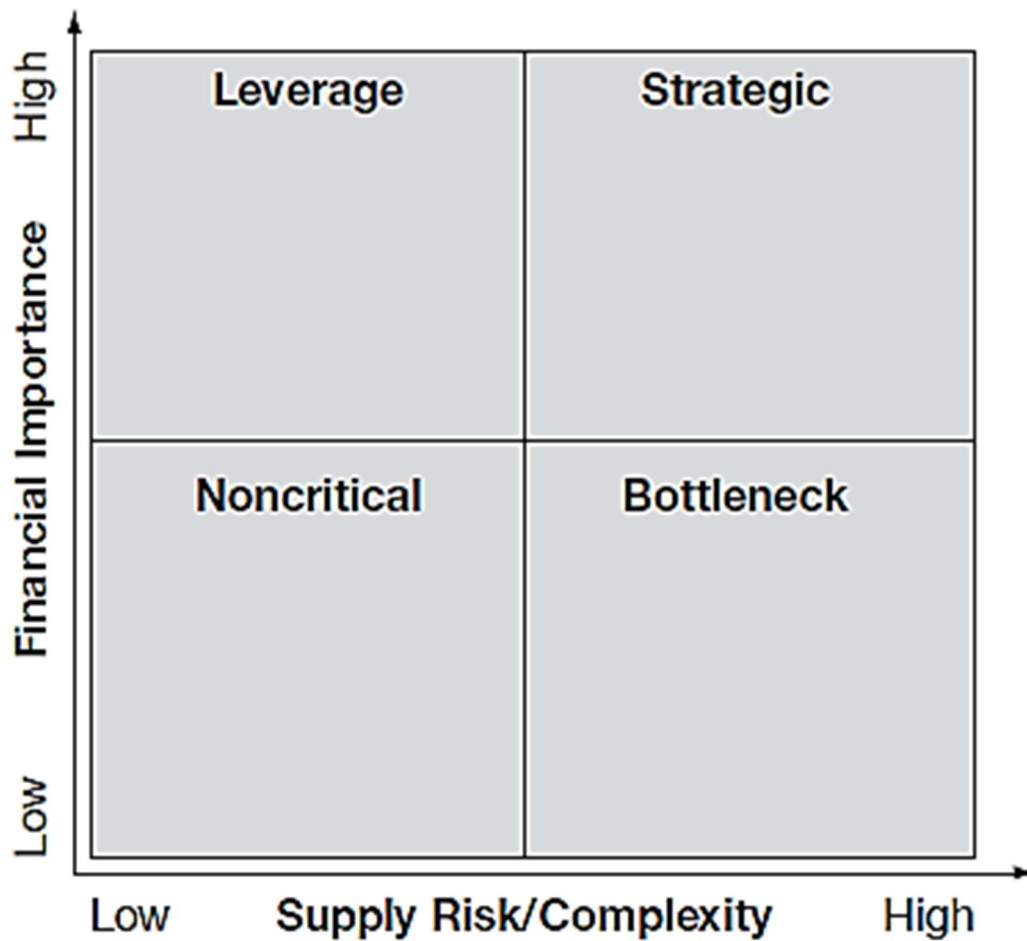
### **How to use the RA:**

*Once you have assessed and described the Top-5 potential risks, drag-and-drop the above stars labelled 1 to 5 to the applicable grid-position. That is, locate the stars regarding the probability of an event to occur and the level of severity for SALSA-CREAM should it occur, then describe and recommend how to mitigate each of the detected risks.*

Short term (ST) = <6 months    Medium term (MT) = 12-24 months    Long term (LT) = >24 months

R. #	Time frame	Risk description:	Suggested Mitigation:
1			
2			
3			
4			
5			

### Procurement Tactical Assessment Plan (TAP)



#### ***How to use Kraljic's Procurement Model:***

*Once you have decided how to enter the marketplace, decide how to categorize each of the three core input categories according to the TAP above (e.g., if packaging is considered to have high/low importance in combination of high/low complexity), and assess the impact on your logistics plan.*

## Design Your Value-Chain

There are three 'groups' of activities you need to address/design for SALSA-CREAM:

- a) **SCM & OPS:** this is the 'input' part (**operative capacity**) of your assessment.  
*Example:* How much do we need to produce; where should we produce it; how do we ship what is needed?
- b) **DISTRIBUTIONS & S/M:** this is the 'output' part (**business capability**) of your assessment. *Example:* how many customers do we need; where are they located; how do we get the products to these locations; how do we store our products; where do we store it etc.?
- c) **SERVICE & PROFIT:** this is the 'results' part (**venture continuation**) of your assessment. *Example:* given our decisions in (a) and (b) above, what is the costs for each alternative, and how much do we make in profit? Considering *all information* (not only the financial outcomes), what do I recommended to the CEO?

