

The Eli’s Cheesecake Company Case Study



*Chicago, IL 2004*

Jeff Anderson, Director of Purchasing for The Eli’s Cheesecake Company, is sitting at his desk scanning the major news outlets in search for latest news on what is happening in Madagascar. Jeff hasn’t made vacation plans to Madagascar, nor does he have any friends or family in the region, but what happens in Madagascar effects him tremendously.

Since 1977, The Eli’s Cheesecake Company has prided itself on delivering Chicago’s favorite rich and creamy cheesecake dessert. Jeff knows that the reputation of Eli’s Cheesecake is based on the quality of its ingredients. Eli’s mission is to ensure their bakery products are known for their *Quality* by providing *Natural, Healthy* and *Customized* specialty baked goods.



To create over 200 varieties of cheesecake, from their original cheesecakes to their couture line of cheesecakes with flavors like Blood Orange Champagne, Jeff Anderson needs to keep approximately 647 items in stock like eggs, sugar, flour, sour cream, fruits and nuts, and chocolate. Additionally, he has to stock packaging materials like cartons, corrugated boxes, flexible film, plastic containers, labels, and aluminum trays. But only one product in his inventory list is causing him to search the Web for information about current events in Madagascar, his vanilla extract.



For years, Jeff Anderson has ordered his vanilla extract from Nielsen Massey Vanillas, a company supplying vanilla products located in nearby Waukegan, IL. But Nielsen Massey’s vanilla plants are not grown in Waukegan. The vanilla beans are grown and harvested on the Island of Madagascar, the largest producer of vanilla beans in the world. Eli’s purchasing department and owners spent a lot of time finding the right vanilla extract for their product and believes Nielsen’s supplies the best product in the market.

Just this morning, his contact at Nielsen Massey called to tell him that unfortunately the price of a gallon of vanilla has jumped from $71 (when he made last month’s purchase) to $560 because a huge cyclone hitting the island wiped out much of the crop. The vanilla crop that survived is now is high demand and the producers in Madagascar want top dollar for it because their country will need to recover from the losses inflicted by the cyclone.

Jeff finds the news report detailing the devastation:



“Cyclone Gafilo, a powerful [tropical cyclone](http://en.wikipedia.org/wiki/Tropical_cyclone) has struck Madagascar causing devastating damage. It is the most intense cyclone ever to form in the south-western [Indian Ocean](http://en.wikipedia.org/wiki/Indian_Ocean) to date. At least 363 people have been reported killed by the cyclone, with over 200,000 left homeless. Damage totaled $250 million. The storm also caused significant crop losses.” (March 6, 2004)

As the Director of Purchasing, Jeff Anderson must now evaluate this news and figure out what to do about his vanilla extract supply and production of his famous cheesecakes. First, he analyzes his costs of materials involved in the production of his Original Plain Cheesecake. The vanilla extract has always been considered one of the essential and well known ingredients for Eli’s products. Even Oprah has been quoted in her magazine as saying, “Maybe it’s the all-butter cookie crust, maybe it’s the Madagascar bourbon vanilla beans-this cheesecake is perfection on a plate.”

Jeff reviews the cost of production for the Original Plain Cheesecake to see how the change in cost for the vanilla extract will reduce his gross profit per unit.

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| Eli’s Original Plain 9” Cheesecake |
| Sour Cream | $1.00/lb. |
| Butter | $1.50/lb. |
| Eggs | $0.80/lb. |
| Vanilla Extract | $65.47/lb. |
| Total Costs of Materials:Selling Price:Gross Profit per Cheesecake: | $10.00$15.00$5.00 |

Currently, the cost of vanilla for each Original Plain Cheesecake produced is $0.10. Given the new prices that Nielsen Massey has quoted, the cost of vanilla extract will go up to $0.79 per cheesecake.

Jeff weighs his options. He could:

Option 1: He could risk the quality and find a new supplier of vanilla beans produced in another country and use this new vanilla extract in the production of his cheesecakes.

Option 2: He could recommend to Eli’s owner, Marc Schulman, that the price of the cheesecake be raised in order to maintain the same level of profit per unit, risking the loss of some customers that won’t want to pay a higher price for Eli’s Cheesecakes.

Option 3: He could ensure his products quality ingredients and keep using Nielsen Massey Vanillas, absorb the new costs, and hope that once the region stabilizes that the price of vanilla returns to $70 gallon with the next growing cycle.

If you were Jeff Anderson, what would you do?