

Problem Analysis Report for Freaky Fresh

PROBLEM

Freaky Fresh: Organic Food Market is a local health food store that feels they may lose business due to a larger chain retailer opening a new store down the street. Freaky Fresh is worried what the future has in store for them if customers begin to choose the large corporation over the local health food store. Large corporations can offer financial resources for larger marketing and advertising budgets; employee benefits such as greater job opportunities, higher wages, health benefits, and retirement benefits; and lower prices.

BACKGROUND

Freaky Fresh is a family owned local health food store home to over 100 full-time and part-time employees. Aurora, Illinois has been home to the business for the last 90 years and is the only location of the store. With the competition growing nearby, Freaky Fresh is suffering from financial loss and worried it might only get worse with the large corporation opening down the road. The question of whether customers will continue to choose them over the large corporation may be the impact on if the store will stay open in the future.

RESEARCH

To determine the extent of the problem, the company is looking into the financial resources, employee benefits, customer feedback and low prices/type of products the large corporation can offer that may be impossible for Freaky Fresh to compete with.

Financial Resources:

- Large corporations have more financial resources than small firms to conduct research and develop new goods.³
- Large corporations have an advantage in the marketplace because consumers are attracted to well-known brand names and the certain level of quality which come with a higher financial need.³

Customer Satisfaction Survey:

- Customer satisfaction surveys provide valuable insight for organizations. They help the organization to stay relevant and understand the needs and wants of the customers.

Employee Benefits:

- Large corporations offer varied job opportunities and greater job stability, higher wages, and better health and retirement benefits.³
- Small corporations can provide employment opportunities to people who may not be employable by larger corporations.⁵

Low Prices:

1. Large corporations can sell their products at lower prices because of the large volume and small costs per unit sold.³
2. Without a stable and/or self-sustaining supplier, small stores may be unable to compete with large corporation prices. Research suggests 82 percent of businesses that fail, do so because of cash flow problems.¹

FINDINGS

Financial Resources:

Upon review of Freaky Fresh’s average monthly expenses and current cash flow statements for the past six months, they appear to have a good cash reserve. Standard recommendation is that a business this size have at least three to six months’ worth of expenses. Although the company has been reporting a gradually decreasing net income over the past year, Freaky Fresh currently has enough cash flow for six months.

Customer Satisfaction Survey:

A Net Promoter Score (NPS®) survey, via email and instore, was conducted with current Freaky Fresh customers. Over 3,000 surveys were sent with a response rate of approximately 30 percent. The NPS survey is a simple but powerful tool to measure client satisfaction with one single question – how likely are you to recommend company “x” to a friend/colleague/relative?⁷ The scale is on an 11-point rating system, ranging from 0 (not at all likely) to 10 (extremely likely). Depending on the score that is given, the respondent is grouped into one of three categories:

Promoters – 9 or 10 score

Passives – 7 or 8 score

Detractors – 0 to 6 score

The survey also included questions such as “what do you like most/least about Freaky Fresh”, “are there any goods/services that we do not currently offer that you would like to see?”, “how could we improve your shopping experience?”, “how do you feel about your customer experience?” and “what is more important – customer experience or deep discounts?”. The NPS score is the key measure of the customer’s overall perception of the brand. The score is calculated by subtracting the percentage of Detractors from the percentage of Promoters which can range from a low of -100 if every customer is a detractor to a high of 100 if every customer is a promoter. Freaky Fresh scored.

(-100 – 0) – Needs Improvement

(0-30) – Good

(30 – 70) – Great

(70 – 100) – Excellent

Aldi is reported to have an NPS® score at 44.8 and Walmart trailing at 27.1. On average supermarkets overall have an NPS® score of 40.7.² Freaky Fresh NPS score was calculated at 55.2, which is in the great range and shows high customer satisfaction, but there is an opportunity to grow.

Employee Benefits:

Interviews were conducted with over 80 percent of the Freaky Fresh staff to determine what employees want from a company to enjoy their job and feel committed, fulfilled. While good pay and benefits were a factor, this was not their main decision to stay at a company. To truly enjoy their job, employees want to feel their employers respect them and they were not working for a paycheck. They want to feel a greater sense of purpose and connect with the company. Employees want to know how their job impacts the company and its customers while being a part of the overall customer success stories. The employees also liked their inclusive work environment and the flexible schedules the store offers. Many of the employees are in school or working another job so being able to accommodate their hectic schedules is very important to them.

Low Product Prices

Without a stable and or self-sustaining supplier, Freaky Fresh may be unable to compete with large corporation prices. Research suggests 82 percent of businesses that fail do so because of cash flow problems, which based on review of the financial statements is not a problem at this time. However, this could become a major issue if customers are shopping solely for cheaper items. This question was addressed on the NPS® survey. Of the approximate 600 respondents, 45 percent indicated the customer experience was more important to them than deep discounts which creates an area of opportunity for

Freaky Fresh. While their NPS® score indicates a high level of customer satisfaction, this appears to be an important reason for a customer to choose them over the larger competition and they may need to find ways to improve further.

CONCLUSIONS

The large retailer opening down the street from Freaky Fresh: Organic Food Market is causing a few potential problems for the survival of the company. It now faces losing customers to the large retailer that is selling products at lower prices. It also faces losing employees to a company that can offer higher wages and benefits. In addition, the larger retailer has more financial resources and more capital available to meet the store's needs. Upon investigation, it is inevitable the company needs to change their strategies and approach in order to save their customer base, but there is belief it can be done. Freaky Fresh appears to have a good reputation in the community and a loyal customer base which can easily be leveraged. While deep discounts are important to most people and will inevitably need to be addressed, the customer experience is a high priority for many consumers as well and this is where Freaky Fresh can excel. Also, based on employee interviews, we have learned employees want to be part of the overall customer success stories and be a part of something "bigger". A small family-owned business, such as Freaky Fresh, has a greater opportunity to make their employees feel appreciated versus a large corporation where employees are just numbers.

RECOMMENDATIONS

To prevent Freaky Fresh: Organic Food Market from losing business to the new large corporation that just opened nearby, here are some recommendations for further review and action:

Recommendation 1:

Review mark-up costs of the grocery items to stay as competitive as possible. Organic food markets typically have a higher average mark-up from 3.5 percent to 6 percent and general supermarkets typically range from 1 percent to 2 percent.² This may mean looking for ways to reduce other operating expenses. Look at all the non-essential expenses that will not affect the consumer base or be very noticed. Also, review the product list and eliminate items that are not selling.

Recommendation 2:

Increase the social media presence of the company and purchase top-end video equipment. Use low cost social media sites such as Facebook, Twitter, Pinterest, YouTube to promote the business and its products and services.⁷ Video content is in demand and will help the business connect with the Generation Y and Millennials (18 – 35 years old) on an emotional level.⁴ Get more in front of the community! Let them know the store is there.

Recommendation 3:

Improve customer service and satisfaction to attract customers. People like to feel connected and heard and the community aspect small businesses provide, can be the game changer of people choosing small businesses over large. A close connection between the business owner to his/her customers can attract new customers and keep people coming because of the reputation in the community the store offers.⁴

Recommendation 4:

Offer services competitors offer to stay relevant to consumers, such as a delivery service or in-store pick up. Also consider offer something the competition does not such as adding a wine bar. Customers could sit and enjoy a glass of wine at the bar or take the glass of wine with them as they shop.

References

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