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Whiskey and Cheddar: Ingredient Branding at the Caesan Cheese Cooperative

In April 2019, Deidra Kelly, the vice president of marketing and product development for the Caesan Cheese Cooperative (Caesan), was reviewing a proposal for a new brand of artisan cheeses.¹ Caesan's board of directors had asked Kelly's team to develop, evaluate, and present a proposal to representatives from the family farms in the cooperative at the next meeting. The proposal included a new line of artisan cheeses that used branded ingredients, a licensing agreement with Pernod Ricard USA (PR-U), a leading distributor of spirits and wine in the United States, a pricing strategy, and a communications strategy. Kelly wanted to increase the likelihood that, if approved, the proposal would increase Caesan's sales and profits.

Kelly had just returned from a preliminary meeting of the Board of Directors, where she was surprised to discover strong disagreement among board members about the proposal. Katherine Ryan remarked, "We should focus on developing our own products without outside partners." Patrick McNeil disagreed: "This is an outstanding opportunity. We should sign the agreement. It will allow us to borrow brand equity to boost sales quickly." Kelly believed that developing a new line of artisan cheeses through a licensing agreement with PR-U was a good opportunity but also had risks. She also wanted to assess how the proposed line would fit with Caesan strategically and financially.

Caesan Cheese Cooperative

Caesan (meaning "cheeses" in Gaelic) was founded in Wisconsin in the early 1900s by five dairy farmers. One of the founding farmers—Liam O'Donnell—was a well-known master cheesemaker who specialized in cheddar using a family recipe from Northern Ireland. Caesan capitalized on O'Donnell's skills and the cooperative's steady access to milk inputs from the family farms.

¹ Unlike an investor-owned corporation, a cooperative is a member-owned and member-controlled business that operates for the benefit of its members. Members decide the direction and operations of the business.

HBS Emeritus Professor John A. Quelch and Ohio University Professor Katherine B. Hartman prepared this case solely as a basis for class discussion and not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. Although based on real events and despite occasional reference to actual companies, this case is fictitious and any resemblance to actual persons or entities is coincidental.

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By 2018, Caesan comprised almost 300 family farms. Like many other cheese cooperatives, each family farm had one vote. Caesan's board of directors hired executive-level managers responsible for finance, marketing and product development, operations, and human resources.

Caesan focused on natural² cheddars. Its product lines were classic, flavored, and artisan cheddars, along with noncheddars. It sold classic, flavored, and noncheddars through supermarkets and other food retailers, and sold artisan directly to the consumer. Unlike its natural cheeses, Caesan's artisan cheeses were produced primarily by hand, in small batches, using as little mechanization as possible.¹ Occasionally, Caesan also produced a special type of artisan cheese known as farmstead, which was produced from the milk collected on the same farm that the cheese was produced.

Caesan's retail cheeses were available in eight-ounce bars wrapped in vacuum-sealed, waxed paper. Nationwide, cheeses were sold to consumers via a wholesale channel from food distributors to supermarkets' dairy section. Caesan's cheeses were priced competitively with other high-quality national brands such as Cracker Barrel, Cabot, and Sargento and were targeted to upper-middle class households. The manufacturer's suggested retail price (MSRP) per eight-ounce unit was \$4.59. **Exhibit 1** lists product items available through retail channels and the percentage of retail sales by product.

Caesan's customers perceived cheese as high-quality, healthy, and good for snacking. Branding emphasized authenticity and its Irish family-farm tradition. The Caesan logo included the phrase "Farmer-Owned Since 1905." Packaging for cheddars emphasized the origin and the lack of processing ("Natural Cheddar Made in Wisconsin"). However, Caesan had a low brand awareness relative to other national brands among its target market, with only a 25% unaided brand recall; other national brands had recall of 45% to 55%.³

Based on its customer surveys, Caesan primarily targeted two market segments, which it termed "Foodies" and "Socially Conscious" buyers. Both segments tended to be young to middle-age professionals who were well-educated and had middle- to upper-class household incomes. Both segments consumed natural cheeses every week, often as a snack or part of a meal. Caesan differentiated the groups by the product attributes each emphasized. Foodies emphasized taste, quality ingredients, and variety. Socially conscious buyers put more importance on Caesan's history and farmer-owned status. Caesan estimated that foodies accounted for 45% of its total revenue, while socially conscious buyers accounted for 40% of its total revenue.

Caesan cheeses were made in a cooperative-owned cheese factory with areas for receiving, processing, aging, packaging, and tasting. In 2018, Caesan generated more than \$50 million in revenue, with a vast majority of sales (98%) from its retail channels. Approximately 2% of total revenue was generated from direct-to-consumer sales via the Internet, which sold exclusive, limited-edition artisan cheeses for \$8.00 per seven-ounce bar. **Exhibit 2** provides a consolidated income statement for 2018.

² In the United States, the Food and Drug Administration (FDA) regulates the definitions and processing requirements of natural and processed cheeses (known as cheese product, cheese food, or cheese spread). Natural cheeses must be 100% real cheese. Processed cheeses could include a combination of natural cheeses plus one or more dairy or nondairy ingredients. For example, processed American cheese was required to have a minimum of 51% real cheese, and natural American cheese had to be 100% real cheese.

³ Unaided brand recall measures the percentage of consumers who expressed awareness of a brand without being given cues.