

Teaching Note

CUNNINGHAM'S PUB: HALLE-LUJAH FOR WINGS

Mary Dellar and Robert Mackalski wrote this teaching note as an aid to instructors in the classroom use of the case Cunningham's Pub: Halle-Lujah for Wings, No. W25214. This teaching note should not be used in any way that would prejudice the future use of the case.

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Version: 2022-06-28

SYNOPSIS

In July 2021, an exciting but risky business venture was keeping Jim Beauchamp awake at night. Cunningham's Pub, the community bar and restaurant Beauchamp had opened 17 years before, had been hit hard when the COVID-19 crisis ravaged the restaurant industry. Sales had plummeted under the government's pandemic restrictions, but that winter, Beauchamp's business experienced a resurgence of interest from a surprising source: Hollywood star Halle Berry. While in town for a film shoot, Berry had raved on social media about the restaurant's hot wings, sparking an unprecedented 28-day sellout and media firestorm that galvanized the business at a precarious time.

To capitalize on the sudden momentum, Beauchamp and his partners began bottling three of their wing-coating sauces for sale in the restaurant, renaming one sauce in Berry's honour. The publicity attracted a major chain store buyer who offered a tempting distribution deal with potential for national expansion. The lucrative possibilities of consumer packaged goods (CPG) were uncharted territory for the team, who lacked the full information necessary to make the pressing decisions they now faced. With the success of their hot wings thanks to the "Halle effect," could they successfully translate their brand to the fast-moving CPG world, and if so, how?

LEARNING OBJECTIVES

This case focuses on marketing strategy, the understanding of marketing as both an art and a science, social media influence, and entrepreneurship. Working through the case and assignment questions will give students the opportunity to

- appreciate the marketing opportunities and challenges from the perspective of an entrepreneur;
- understand fixed and variable costs, contribution margins, and break-even points; and
- make marketing strategy decisions based on financial evaluations.

POSITION IN COURSE

This case was written as an introduction to marketing, marketing strategy, and retailing courses, and is suitable for undergraduate- and graduate-level courses.

This teaching note can be used for both in-person and online classes.

RELEVANT READINGS

- Anthony K. Tjan, “Business Needs More Judo, Less Karate,” *Harvard Business Review*, January 24, 2012, <https://hbr.org/2012/01/business-needs-more-judo-less.pdf>.
- Philip Kotler and Gary Armstrong, “Marketing by the Numbers,” appendix 2 in *Principles of Marketing*, 18th ed. (New Jersey: Pearson Education, 2021), 599–616.
- Philip Kotler and Gary Armstrong, “Marketing Channels: Delivering Customer Value,” chap. 12 in *Principles of Marketing*, 18th ed. (New Jersey: Pearson Education, 2021), 322–353.

RELEVANT MEDIA ARTICLES

- Ilana Belfer, “Halle Berry Revealed Her Pick for Best Hot Wings in All of Montreal,” MTL Blog, December 26, 2020, <https://www.mtlblog.com/en-ca/eat-drink/montreal/halle-berrys-favourite-hot-wings-in-montreal-are-from-cunninghams-pub-on-the-west-island>.
- Daniel J. Rowe, “Halle Berry Gives Shout Out to Montreal West Island Pub’s Hot Wings,” CTV News, December 26, 2020, <https://montreal.ctvnews.ca/halle-berry-gives-shout-out-to-montreal-west-island-pub-s-hot-wings-1.5245292>.
- Corey Atad, “Halle Berry Gives a Huge Shoutout to Montreal Pub’s Hot Wings,” ET Canada, December 26, 2020, <https://etcanada.com/news/728876/halle-berry-gives-a-huge-shoutout-to-montreal-pubs-hot-wings>.

ASSIGNMENT QUESTIONS

1. What effects could Halle Berry’s social media post have?
2. What are Beauchamp’s options regarding the sauces?
3. Evaluate Beauchamp’s sauce options. What should he do?
4. What are the opportunities that Halle Berry has created?

TEACHING PLAN

The case can be taught in a 75-minute online or in-person class. The following offers a suggested time allocation.

Discussion	Time (in minutes)
Warm Up (optional)	5
Assignment Question 1	5
Assignment Question 2	5
Assignment Question 3	50

Discussion	Time (in minutes)
Assignment Question 4	5
What Happened	5

Warm Up (optional)

The instructor can begin by screening Halle Berry's social media post in which she talks about discovering Cunningham's Pub chicken wings.¹

ANALYSIS

1. What effects could Halle Berry's social media post have?

Halle Berry's social media post affects different areas:

	Effect
Customers	<ul style="list-style-type: none"> Created new customers. Angered (some) loyal customers. This may happen if a loyal customer shares Halle Berry content but then gets penalized because they cannot order wings due to a lack of availability. The more the customers push, the more they suffer. There is no reward for being loyal.
Financial	<ul style="list-style-type: none"> Revenues for Cunningham's Pub increased (see case Exhibit 1). There may be an opportunity to increase the retail selling price of wings.
Morale	<ul style="list-style-type: none"> Cunningham's Pub employees and owners have a positive, fun story to motivate them during a difficult pandemic period with demoralizing restrictions.
Channel	<ul style="list-style-type: none"> Helpful boost with a sale pitch to retail customers. Retail buyers and suppliers may be more excited to work with Cunningham's Pub. If two sauces are pitched to retailers, one of which has Halle Berry's endorsement and the other does not, which one is more likely to get distributed?
Brand	<ul style="list-style-type: none"> Brand equity is created with growing awareness and positive brand image due to the free publicity.

2. What are Beauchamp's options regarding the sauces?

The instructor can structure the board plan (see Exhibit TN-1) through class discussions. The case options can be set out as the five major opportunities, and students can be polled to see which option(s) they think Beauchamp should pursue with his sauces. These include

- selling the sauces in the restaurant,
- selling the sauces in the 100 independent stores,
- selling the sauces in the supermarket chain's 300 stores,

¹ Halle Berry (@halleberry), "Here's to the Best Wings in #Montreal," Instagram, December 24, 2020, <https://www.instagram.com/tv/CJM0ugflsYU>.

- selling through Amazon.com, fulfilled by Amazon (FBA) or fulfilled by merchant (FBM), or
- staying out of the CPG market.

A second poll can ask students to identify what they believe Beauchamp's offering should be, including

- selling the three best-selling sauces,
- selling the Halle-Lujah sauce only, or
- not selling any sauces.

The instructor can return to these responses later in the class once the students have completed their analysis.

3. Evaluate Beauchamp's sauce options. What should he do?

The instructor can then ask students which option(s) they believe would be best, including selling

- in the restaurant,
- in the 100 independent stores,
- in the 300 supermarket chain stores, or
- on Amazon.

Several of the arguments made to justify each decision can be used to structure the board plan (see Exhibit TN-1).

Restaurant. The restaurant option requires little investment (i.e., low fixed cost) and has a low-risk profile. This option also has the highest margins because there is no intermediary taking a slice of the revenue.

100 independent stores. The 100 independent stores option may strike a chord with students who argue that this enables Beauchamp to test the waters and work out the kinks in production and CPG distribution. It is not as risky as the 300 supermarket chain stores option because selling through the independent stores has lower fixed costs and a low risk of being delisted. The independent stores also carry the highest selling price, probably because of fewer competitors and more niche positioning (e.g., souvenir stores).

300 supermarket chain stores. Arguments for the 300-store supermarket chain option can be supported by the potential for high levels of sales. Three hundred stores are a significant level of distribution, and the chain's buyer seems optimistic on their ability to successfully make these sales. If this proves to be the case, then taking the sauces national across all 1,500 stores may be possible – and even more so with other chains. Students may argue that Halle Berry has provided a once-in-a-lifetime supercharge to get this distribution free of listing fees and that this opportunity ought to be taken.

Amazon. Many students will advocate for the Amazon option. Students are lured by the global reach, enormous potential customer base, and reasonable start-up costs.

Board Plan

The above discussion can enable completion of the board plan. The aim of the board plan is to lay out which options are profitable—using break-even analysis—and which carry the greatest risk.

Discussions should be dynamic and discussions related to price can be used to complete the columns with the manufacturer's suggested retail price (MSRP) and sale price. Margin discussions can inform the contribution margin (CM) column. Risk-related comments can be probed to extract total fixed cost (TFC) risk and delisting risk (shelf-required minimum). Finally, expected sales are relevant based on revenues.

With a table drafted on the class board (see Exhibit TN-1), the instructor can probe students to see what they believe are Beauchamp's best options.

The board plan's MSRP and selling price can be populated using the data from case Exhibits 4 and 5. From this discussion, students can see how pricing varies within each channel. Selling price is highest through the restaurant and independent stores, and lowest through the supermarket chain and Amazon options. Independent stores will realize a healthy 38.5 per cent margin and the supermarket chain stores, a 33.4 per cent margin. In addition, Amazon FBM requires an additional charge for shipping and handling.

The Margin Discussion

From here, the instructor can ask where the margins are highest. For this to be compared, total variable costs (TVC) need to be understood and calculated. Case Exhibits 4 and 5 provide the necessary data for these calculations.

Please note, when calculating the TVC for the three sauces, this teaching note averages the variable costs (VC) of the three flavours: Halle-Lujah, Honey Garlic, and Thai Chili. The restaurant data tells us that the sauces sell equally, and we are assuming that over time the other channels will skew to this mean. Of course, the Halle-Lujah sauce may be a bigger draw in the initial sales.

Direct variable cost comparisons can now be made (see Exhibit TN-2).

The CMs (= Price – TVC per unit) can also be calculated (see Exhibit TN-3).

Students can be asked to analyze this data. The Halle-Lujah-only option consistently provides the highest returns. It is interesting that even with the lower selling price in the 300-store option, the CMs (both in dollars and percentage) are higher. This speaks to the power of economies of scale in production. The Amazon option is also noteworthy: it is expensive to sell on Amazon.

The Profit and Risk Discussion

The risk discussion is an interesting one. Two highly relevant questions are the following:

- Where can Beauchamp be profitable? For this, break-even and expected sales need to be compared for each option.
- Can Beauchamp sell enough to not be delisted—that is, not have his products removed from the shelves?

Break-evens can be calculated using the annual fixed costs in case Exhibit 5 along with the CM calculated in Exhibit TN-3, using the formula $TFC \div CM$, where TFC is the annual fixed costs by channel. For example, for restaurants selling all three sauces, the calculation would be $6,200 \div 3.84 = 1,281$ units per year.

“Weighing Options” in the case notes the track record of restaurant sales and the expected sales of the different CPG options. From there, we can calculate how many units per store per week Beauchamp can expect to sell (see Exhibit TN-4).

With these calculations completed, the different options can now be compared (see Exhibit TN-5).

Comparing Options

Restaurant

Selling the three sauces in the restaurant is a defensible option. A total of 468 units could be sold with a break-even point at 455 units sold. However, this amounts to \$49.92 ($= [468 - 455] \times \3.84), suggesting it may not be worth the effort.² Further, this could be a money-losing proposition once returns, spoilage, and breakage are taken into consideration; also, the sauces may only be selling as a novelty due to the Halle effect. It is also worth noting that if Beauchamp could lower production costs (e.g., bottling at the restaurant rather than outsourcing and using a plastic rather than a glass bottle) and sell only the most popular flavours, which he knows sell well from restaurant sales, then there is some money to be made here.

100 Independent Stores

The 100 stores option is interesting because on the surface, it has lower up-front costs as a means to test the sauce proposition. However, the break-even data tells a different story. Given the expected sales, neither selling just the Halle-Lujah sauce nor selling all three sauces is close to being profitable.

With the three sauces option, Beauchamp is below the break-even point for the year by more than 8,000 units ($= 25,313 - 16,900 = 8,413$ units). In financial terms, this is $8,413 \text{ units} \times \$8.99 = \$75,632$ in retail sales below break-even. The Halle-Lujah-only option is $3,471 \text{ units} \times \$8.99 = \$31,204$ in retail sales below break-even.

Selling in independent stores is also a complicated option, requiring more time, administrative effort, and logistical effort in supporting a network of intermediaries. Dealing with this many stores would drain resources that could be better used at the restaurant.

Beauchamp would be ill-advised to proceed with the 100 independent stores option.

300 Supermarket Chain Stores

There is no question that the 300-store option is exciting. Beauchamp has been in the restaurant business for seventeen years and Cunningham Pub’s wings caught the attention of a Hollywood star. If he makes the right decisions on selling his proprietary restaurant wing sauce with a retailer(s), Cunningham’s Pub could become a national brand. Even more promising is that both the all-three-sauce option and the Halle-Lujah-only option are profitable. Expected sales of 81,900 units (3 sauces) would yield \$24,773 ($\$1.46 \times [81,900 - 64,932]$) in profit, and expected sales of 49,920 units (Halle-Lujah only) would yield \$2,765 ($\$1.69 \times [49,920 - 48,284]$). This is encouraging considering most start-ups are not profitable in their first couple of years.

² All dollar amounts are in CA\$ unless otherwise stated.

However, a troubling issue for Beauchamp is that at the expected sales level, he is just over the cusp of being delisted. A new or existing competitor could quickly change the level of expected sales. In addition, there is still the supply channel risk from rising production that could cripple Beauchamp's margins and impact his profitability. What happens to profitability if Beauchamp lacks the required energy, capacity, and expertise to drive this? These qualitative issues push the risk profile higher than what it initially appears to be.

From this discussion, students can discern which would be better option for Beauchamp, either

- three sauces with more profit but at greater risk of delisting risk, or
- Halle-Lujah sauce only with less profit but a lower likelihood of delisting.

Amazon

None of the Amazon options are financially appealing. All would have significant financial losses. Students may be shocked to see just how poor the Amazon options are in their current state. Selling on Amazon may provide value for CPGs (e.g., testing new products, serving hard-to-reach customers, selling on the long-tail), but for an Amazon option to work, Beauchamp would have to rethink his product (e.g., lighter plastic bottle versus glass), promotional strategy (e.g., Amazon keywords), and pricing (e.g., FBA for Halle-Lujah sauce at a price of \$13.99). The current configurations simply do not work.

At this point in the discussion, the polls can be revisited. Students can see how their thinking has changed (or not) based on the quantitative and qualitative analysis.

A new poll can be conducted to see which option(s) Beauchamp should pursue with his sauces, including

- selling the sauces in the restaurant,
- selling all three sauces in the 300 supermarket chain stores,
- selling the Halle-Lujah sauce only in the 300 supermarket chain stores, or
- staying out of the CPG space.

Time permitting, the fourth option (staying out of the CPG space) leads to an interesting discussion.

Staying Out of the CPG Space

There are several arguments why Beauchamp should stay out of the CPG space completely.

While there is clearly something excellent about the wings, it is unclear what it is. Perhaps it is the size of the wings? The Cunningham's Pub brand? The sauce? A combination of these? Something else? Contrarian students may argue, with merit, that there is nothing unique about these wings—that the hype was merely a result of Halle Berry's kindness in helping a struggling restaurant.

As part of this discussion, students should realize that brand is more difficult to replicate than wing size or a sauce recipe. However, does the Cunningham's Pub brand extend beyond loyal customers? Looking at its social media numbers, the Cunningham's Pub customer base is small (e.g., approximately 2,500 Instagram followers prior to Halle Berry's post). Does the company have the resources to actively build its brand outside of its core base? The answer to this last question is likely no, given the pains it has experienced due

to the COVID-19 regulations. Beauchamp has also already spent \$15,000 on CPGs, further limiting his ability to market to his base.

An important consideration is that Halle Berry had chef-prepared restaurant wings that were also served hot. If this, and not the secret sauce, was what led to Halle Berry's strong endorsement of the product on Instagram, then does bottling and selling Halle-Lujah make sense?

It appears that Beauchamp and his partners are passionate about looking after their restaurant customers. CPG does not offer a way to strengthen this relationship.

Cunningham's Pub is operating during a precarious period, and now may not be the time to take on new risk. In fact, Beauchamp likely has his hands full making sure the restaurant can continue. He has been dealing with a lot:

- Plummeting sales. Looking at the sales from February 1, 2018, to January 31, 2021 (see case Exhibit 1) and noting the trends, the most obvious point to note is the drastic drop in sales between March and June 2020 when the business was forced to close due to government-imposed restrictions.
- Staffing issues, including the loss of a chef and overworked staff.
- Securing the supply chain during an ongoing pandemic.
- Dealing with rising prices and inflation.

Further, Beauchamp knows the restaurant space and has demonstrated his expertise and success in it. When customers start returning to restaurants, Beauchamp will need to be ready. In other words, Beauchamp could take this time to rethink his main business, remodel his restaurant, and revise his menu.

4. What are the opportunities that Halle Berry has created?

The instructor can return to the Halle effect to wrap up this discussion by pointing out that the CPG opportunity is not the only opportunity that Halle Berry may have created and which the entrepreneurs could pursue. There may be less risky opportunities of catering to Hollywood productions or opening food trucks in Montreal. These likely carry less risk.

WHAT HAPPENED

Due to prolonged government restrictions and high levels of uncertainty regarding a full restaurant reopening for the entire industry, Beauchamp and his partners pursued the CPG opportunity citing "a once-in-a-lifetime opportunity." They successfully pitched a major supermarket chain and are on track with distribution to the initial 300 stores. Beauchamp has also made significant inroads with local independent stores. Within the first two months, he sold over 21,000 units in 150 stores. He continues to manage the social media channels himself and hopes to make good on his commitment to his wife, Karen, that they will take two vacations each year.

EXHIBIT TN-1: BLANK BOARD PLAN FOR COMPARING ALL OPTIONS

Option	Offering	MSRP (CA\$)	Sale price (CA\$)	TVC per unit (CA\$)	CM (CA\$)	TFC (CA\$)	Break-even per year (units)	Retail minimum per week per store	Shelf-required minimum (units)	Expected no. of units sold per week
Restaurant	3 sauces									
	Halle-Lujah only									
100 stores	3 sauces									
	Halle-Lujah only									
300 stores	3 sauces									
	Halle-Lujah only									
Amazon FBA	3 sauces									
	Halle-Lujah only									
Amazon FBM	3 sauces									
	Halle-Lujah only									

Notes: CM = contribution margin; FBA = fulfillment by Amazon; FBM = fulfillment by merchant; MSRP = manufacturer's suggested retail price; TFC = total fixed costs; TVC = total variable costs.
Source: Created by the case authors.

EXHIBIT TN-2: DIRECT VARIABLE COST COMPARISONS

Option	Offering	Production VC (per unit) (CA\$)	Other VC (per unit) (CA\$)	TVC (per unit) (CA\$)
Restaurant only	3 sauces	4.15	0.00	4.15
	Halle-Lujah only	3.83	0.00	3.83
100 stores	3 sauces	3.46	1.75	5.21
	Halle-Lujah only	3.19	1.75	4.94
300 stores	3 sauces	2.95	1.58	4.53
	Halle-Lujah only	2.72	1.58	4.30
Amazon FBA	3 sauces	3.95	3.48	7.43
	Halle-Lujah only	3.63	3.48	7.11
Amazon FBM	3 sauces	3.95	6.29	10.24
	Halle-Lujah only	3.63	6.29	9.92

Notes: FBA = fulfillment by Amazon; FBM = fulfillment by merchant; TVC = total variable costs; and VC = variable costs.
Source: Created by the case authors based on company documents.

EXHIBIT TN-3: CALCULATING THE CONTRIBUTION MARGINS

Option	Offering	Sale price (CA\$)	TVC per unit (CA\$)	CM (CA\$)	Margin (%)
Restaurant	3 sauces	8.99	4.15	3.84	48.0
	Halle-Lujah only	8.99	3.83	4.16	52.0
100 stores	3 sauces	6.49	5.21	1.28	20.0
	Halle-Lujah only	6.49	4.94	1.55	24.0
300 stores	3 sauces	5.99	4.53	1.46	24.5
	Halle-Lujah only	5.99	4.3	1.69	28.0
Amazon FBA	3 sauces	7.99	7.43	0.56	7.0
	Halle-Lujah only	7.99	7.11	0.88	11.0
Amazon FBM	3 sauces	13.99	10.24	3.75	27.0
	Halle-Lujah only	13.99	9.92	4.07	29.0

Notes: CM = contribution margin; FBA = fulfillment by Amazon; FBM = fulfillment by merchant; and TVC = total variable costs.
Source: Created by the case authors based on company documents.

EXHIBIT TN-4: ANTICIPATED UNITS SOLD FOR THE TWO STORE OPTIONS

		Expected retail sales per year (CA\$)	Expected units per store per week (units)
100 independent stores	3 sauces	151, 931	3.25
	Halle-Lujah only	93,496	2.00
300 supermarket chain stores	3 sauces	654,381	5.25
	Halle-Lujah only	398,860	3.20

Source: Created by the case authors based on company documents.

EXHIBIT TN-5: COMPLETED BOARD PLAN COMPARING ALL OPTIONS

Option	Offering	MSRP (CA\$)	Selling price (CA\$)	TVC per unit (CA\$)	CM (CA\$)	TFC (CA\$)	Break-even per year (units)	Retail minimum per week per store (units)	Shelf-required minimum per year (units)	Expected no. of units sold per week	Expected no. of units sold per year
Restaurant	3 Sauces	8.99	8.99	4.15	3.84	2,200	455	n/a	n/a	9.00	468
	Halle-Lujah only	8.99	8.99	3.83	4.16	2,200	426	n/a	n/a	3.00	156
100 stores	3 Sauces	8.99	6.49	5.21	1.28	32,400	25,313	3.0	15,600	3.25	16,900
	Halle-Lujah only	8.99	6.49	4.94	1.55	21,500	13,871	1.0	5,200	2.00	10,400
300 stores	3 Sauces	7.99	5.99	4.53	1.46	94,800	64,932	5.2	81,120	5.25	81,900
	Halle-Lujah only	7.99	5.99	4.30	1.69	81,600	48,284	3.1	46,800	3.20	49,920
Amazon FBA	3 Sauces	7.99	7.99	7.43	0.56	19,500	34,821	n/a	n/a	30.00	1,560
	Halle-Lujah only	7.99	7.99	7.11	0.88	19,500	22,159	n/a	n/a	24.00	1,248
Amazon FBM	3 Sauces	13.99	13.99	10.24	3.75	22,500	6,000	n/a	n/a	18.00	936
	Halle-Lujah only	13.99	13.99	9.92	4.07	22,500	5,528	n/a	n/a	14.00	728

Notes: CM = contribution margin; FBA = fulfillment by Amazon; FBM = fulfillment by merchant; MSRP = manufacturer's suggested retail price; TFC = total fixed costs; TVC = total variable costs.

Source: Created by the case authors.