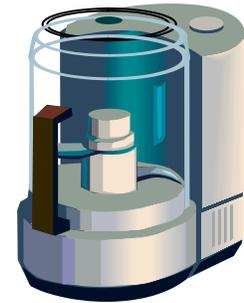


## 15.390 New Enterprises Mini Case Study #10: Foodista Industries

By Howard Anderson and Bill Aulet

Last week you had dinner at Nathan Myhrvold's. In fact, he cooked for you. Myhrvold left Microsoft twelve years ago where he was the Chief Technical Officer with \$100 Million in his pocket to start a VC Fund and is CEO of Intellectual Ventures.

But his real passion is food. His home in Seattle has every state-of-the-art appliance and his quest for perfection knows no bounds. He is an excellent chef. You don't yet have \$100 Million but you too love food and its preparation – which is why Nathan invited you to dinner. You won the MIT James Beard Award for food excellence and have already written a successful cookbook, "From Pi to Pie: My Life In MIT's Food Court" which was number 13,156,997 on the Amazon Cook Book List.



Over a dinner of fine delicacies Nathan expounded on his favorite cooking product. "For years I have the Thermomix to be state of the art. It is a \$1,400 product that is more than a mixer – it grinds, crushes, blends, kneads, weighs, sautés, steams and simmers – and stirs while doing so. The management of Thermomix is strange but if you are into foods – you just need to have one. I have three, of course," Nathan's passion for Thermomix was obvious.



"The Thermomix combines several activities into a single appliance, but before the introduction of the Thermomix in Europe consumers were unaccustomed to spending over \$1,000 for one kitchen top appliance. For this reason both market segmentation and selling were the keys to success.

"Last year the company sold about 200,000 machines in Spain and Italy. Market research shows that the typical European customer is a married woman with annual household income greater than \$75,000. She cooks at least 4 nights a week.

"Until now, management has refused to sell into the United States because it thinks Americans are just too boorish to appreciate fine food. The size of the market needs to be researched in the US. In Europe the Thermomix is sold through "agents" not stores because learning how to use it takes about an hour and management does not believe that any traditional retail store, even at the high end, would do his product justice.

"Last week, Herr Dr. Teppichfabrik, the CEO of Foodista Industries, maker of the Thermomix, was here to see me and I convinced him to set up an independent company to sell to the United States market and only to the United States. Dr. Teppichfabrik was insistent that this be done with a wholly new company and also noted that he would grant an unheard of exclusive license to the new company for twenty years. His only two requirements are that the product be sold by this new company and not through retail stores. The Doctor believes that only a student who loved food and had gotten in A in 15.390 could run such a company.

“I don’t think we will have any direct competition in the US for a few years, but I am not totally sure what our indirect competitors will be.

“I try not to let my avocations get in the way of my vocations, so I am putting in \$1 Million dollars for 25 percent of Vorwerk U.S. – and I am giving you 75 percent. Vorwerk USA will buy the product from Dr. Teppichfabrik’s firm in Germany for \$700 and will sell in the United States for \$1,400, so there is wonderful margin. I will be on your Advisory Board if you wish, but I am going to be “hands off” on this investment.

“The only requirement to keep this exclusive arrangement is that Vorwerk U.S. must sell 100,000 machines in year 1, 150,000 in year 2, and 200,000 in year three.

“What has worked well elsewhere are demonstration parties where demonstration associates sell to those who are seriously into food.

“A good demonstration associate should be able to sell 50 machines per year and typically these associates are independent contractors who make \$300 per sale. It is kind of like an Avon plan but at the very high end.

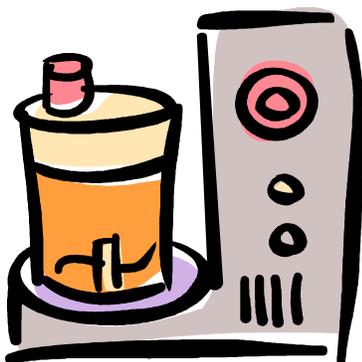
“The product has wonderful patent protection and superb manufacturing, although you will have to provide for after sales support in the US.

“So come back to me with some first rate, first hand market research, and if it’s ok, this opportunity is yours!”

Where and how to market the product will be up to you. Ads in Gourmet Magazine cost \$60,000 per page. There are some 5,000 accredited cooking schools in the United States and some 40,000 teachers of cooking. You are interested in finding a way to use the Internet and aren’t sure what to do, such as buying “key words” from Google, but you feel you must do something.

If you recruit sales agents, where will they come from? How will you select them? Supervise them? Train them? How long will this take? Remember that you also have to hit that revenue forecast to keep your exclusive agreement.

Nathan told you that he isn't certain how much capital you need and would be prepared to invest more, but that will decrease your ownership so it is up to you to decide how much cash you need. So build a sales plan, a marketing plan, a cash flow plan, and a staffing plan.



**OK... What kind of First Hand Market Research would you do? To whom? In what form?**