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An analysis of McIlhenny Company of Avery Island

Economics 2010: Microeconomics

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I. Company Profile

McIlhenny Company of Avery Island, or more commonly known as the maker of Tabasco®, was founded in 1868 in Avery Island, Louisiana. The company is the nationwide distributor of Tabasco products, hot sauce specifically, which still operates on the same island of its founding. There are several product lines within the Tabasco branding, but the original red pepper sauce continues to be the face of this timeless brand. Their main product, the red pepper sauce, is made up of three key ingredients: vinegar, salt, and red pepper. By 1870 a patent had been secured and by the end of the decade, many of its products were shipped across the growing United States and made its international debut. The company continues to be a staple product 150 years later in many American households and available in many restaurants (History of Tabasco). Tabasco products, as well as the hot sauce industry, continues to be a market which has a robust projected forecast for growth.

II. Consume Demand

Demand for Tabasco products has consistently risen throughout the company's lifespan. While's its first shipments were domestic, it quickly became a demand internationally (History of Tabasco). During the 1900's, the restaurant business within the United States is said to have risen sevenfold from the 1970's to 1990's (Romeo, P., & Weinberg, M. E., 2019). As the restaurant industry grew and expanded in American culture, Tabasco maintained close partnership and benefitted from the same growth. Other notable partnerships was with the military in the 1990's incorporating the sauce into MRE's (Meal, Ready-to-Eat); a readily available product to service men and women, providing brand exposure. This product is now

labeled in more than 35 languages and dialects with the second largest consumer of Tabasco being Japan (Encyclopædia Britannica, inc). As the food industry remains an important part of our daily and cultural livelihood, products which enhance those experiences will continue to remain relevant. For many reasons, one can easily see the expansion this product has already undertaken and continues to take within the food industry.

Next we will analyze demand, which can be defined as the relationship between price and the quantity demanded. Determinants of demand might be shortages, consumer preference, change in price of substitution or complimentary goods, or change in number of consumers. Elasticity of demand can be thought of as a response to changes in price and quantity of product sold in response. As more products enter the market consumers can judge if a price matches their personal and financial preference as they decide what to purchase. Since condiments or food additives, such as hot sauce, are not necessary to enhance a food, their demand is elastic. In other words, its demand is variable. In hard economic times settled in, expenditures such as your favorite hot sauce, might not be as important as eggs or a gallon of milk. Demand can also be influenced by the availability and introduction of new products to the market. As consumers have more choice, the result of said choices help dictate the demand for current products. Due to ever present competition, Tabasco should maintain a goal to be more internationally recognizable, so its demand will increase and create a stronger, inelastic demand on a product restaurants and patrons alike want to enjoy.

III. Cost Structure

Tabasco, like many companies, has costs which are variable and fixed. Variable costs might include shipping, ingredients for their product line, packaging, utility fees, and hourly

employees. These costs are impacted by changes in the market and can vary. For example, if the cost of salt or vinegar spikes, this can greatly impact the cost of producing their product. Fixed costs are maintenance of their original warehouse in Louisiana, salary employees, advertisement, or insurance for the company. These prices generally do not fluctuate and remain, as defined, fixed or unchanged. Advertisement is generally considered a fixed cost variable although depending if there is a rebrand or new product available, this could be considered a variable cost depending on the year.

While cutting costs is the goal of most companies, taking on additional cost can be beneficial long term. In October 2022 Tabasco announced its plans to add to its current plant by expanding equipment to make small pouches of the product. This would be \$2.05 million in construction. It is unclear how much production will result but this would add 3 jobs to its current 106 person plant. The firm will try to offset equipment costs by applying for an 80% property tax abatement for 5 years. This is a good example of firm growth while attempting to seek incentives for increased business expected as a result for the state of Louisiana (Adam Daigle, 2022).

IV. Market Structure

The best market structure which explains Tabasco is monopolistic competition. An oligopoly structure could also reasonably be considered since there are larger firms who do control a fair amount of the market. Within a monopolistic competition market structure, there are a large number of independent firms with low barriers to entry, differentiated products, and the market is considered dynamic. An oligopoly structure is an environment where the demand is elastic, price is inelastic, high barriers to entry are in place, the products are similar,

and control is held by a few large companies. There are qualities within both markets structures that could represent this firm. I do not see this market structure changing, unless Tabasco continues to expand and make it more difficult for others to enter the market which would shift toward the oligopoly structure. In 2020, Tabasco was said to own approximately 22.62%, the largest ownership of the market reported (*Hot sauce market size, share, growth, trends: Analysis, 2022*).

I see the price of Tabasco products as being “sticky”, or a pricepoint which does not change or is easily influenced. Their main goals will likely be in the form of advertisements and brand expansion domestically and internationally. Since spicy and bold foods are a product consumers are demanding, it would be wise for Tabasco to continue expanding their current market line of sauces. As long as the name Tabasco holds a brand reputation, instead of single product reputation, they can continue to pave their way and increase market share. This will be part of their non-price marketing to consumers. Because they have been holding strong since 1870, their product is fairly safe from competition and has a strong position as an established good. Projections show growth in the hot sauce industry from 2.17 billion in 2021 estimated to be 4.72 billion by 2029; it will be interesting to see if growth is due to firms already in existence or by new firms who enter the market (Fortune Business Insights, 2022).

V. References

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VI. Reflection

This class has been rewarding to take. In my teenage and adult years I have heard many of the terms we have learned about discussed on the news and in general conversation. We often can deduce what many of these terms mean but never gain a true appreciation for what they mean and how we can apply them. My knowledge within this area has grown tremendously because of the information learned. I will be able to apply this information and knowledge in a constructive manner when I hear reports on the news or have meaningful conversations with friends and family.

I suppose many of my former thoughts about microeconomics have changed but a better term might be how my thoughts have grown. For me, analyzing and reproducing the graphs and seeing changes we were learning about was a helpful and visual tool to see the information at work. The weekly assignments and videos contributed most to my learning. Considering how I

purchase products or even view companies will be a change I carry with me. While this is a beginner microeconomics course, I believe it does provide a good starting point for being a more informed consumer.