

Case 11

Jill's House of Cakes

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Jill sat looking around her kitchen imagining what it would look like twice as big, crowded with people, all making cakes. She had started out baking cakes for friends and family but somewhere along the line it had developed into a small but growing business. She wondered if growing was what she really wanted, and if her neighbors would let her expand her business in her home without complaint. Jill knew she needed to talk to someone with business experience, which was why she had called her friend Debbie, a business consultant, and invited her to lunch. They were to meet in thirty minutes to discuss Jill's future business plans. As she stood and picked up her car keys Jill sighed and mumbled to the empty kitchen, "What am I getting myself into?"

Home Business

Jill had always loved to bake, and her cakes were the talk of every family gathering. It became part of the family tradition to ask what her secret was to making cakes extra light and moist; but Jill, who thought it was flattering to have so many people ask her, would never tell how she accomplished the feat. Family members began to tell their friends who, in turn, started to ask Jill to make cakes for their special family occasions. Before she knew what had happened, she was making ten to fifteen cakes each month. Yet it was not until her best friend from college asked her to send a cake to Connecticut for a very special birthday that Jill found her niche in the market: mail-order cakes. After that, Jill began making three special-order cake packages per day for every major occasion and celebration (such as

thank yous, congratulations, birthdays, anniversaries, Christmas, and Easter) for her friends and shipping them all over the continental United States.

A good share of Jill's business involved making and shipping birthday cakes, which brought in the most consistent cash flow, but not nearly what was needed to buy all the decorating supplies and ingredients for the different holiday seasons that were the biggest times of year for her business. Because of this, capital management was a constant concern since shortages of cash reserves were always a problem.

Even so, Jill's business appeared to be growing quickly in a world where people are all moving at a faster pace and want a gift that can be sent quickly and easily. Since many have moved toward the trend of impersonal, mail-order gift giving, Jill felt that what she provided was the unique opportunity to offer both: a gift sent by mail yet still a "personal" special occasion celebration package. Thus, the uniquely packaged gourmet cake becomes a wonderful alternative to the ever-familiar flowers or candy.

Price

Although Jill had been pricing her cakes at the \$20 to \$22 level, she was doubtful she could maintain that price with the new cost structure and higher level of competition. When assessing the price of the product, Jill determined she wanted her cakes to be priced below or consistent in price with other gifts that could be delivered to homes. She decided that the delivered cost of the cake should be at the mid- to upper-twenties range (including an 8.5 percent state sales tax and a standard shipping and handling charge for routine orders). To ensure price satisfaction and repeat purchases, Jill often put special party favors or other little treasures unique to the occasion in each box. These inexpensive items would also be included in the standard delivered cost of the cake.

Distribution

To keep customers satisfied, Jill promised that orders placed before noon would be shipped the same day. This usually worked, although sometimes when people called at 11:30 a.m. it presented a problem. Since 11:30 a.m. was so close to the deadline, if there was

any problem in the kitchen the order would often not be sent the same day as promised. Her friends had always been very understanding about this, with the exception of one of her new neighbors, Elizabeth.

A bigger concern was with her delivery service provider. Although she called and stated she needed a refrigeration unit for her shipment, often the driver would come unprepared to pick up her delivery and would need to go back a second time before the cakes could be shipped. However, her husband told her she was worrying over nothing since they did not charge extra for the return trip and the delivery was still sent out on time; so, overall, Jill was happy with her current delivery system.

Competitors

Although her business was growing, Jill constantly worried over the competition in the marketplace. She knew by the number of catalogs she received every day in the mail that there were numerous decisions to consider before current or future customers made the purchase of a gift.

Jill knew that by using accessibility and free delivery as a weapon, local bakeries and gift shops in the area were all current competitors. Indirectly, all the catalogs and florist shops with their toll-free order numbers, as well as national toll-free florists, were potential competitors since they could add gourmet cakes to their product mix and quickly enter the market at any time. As of yet there were no local competitors in the surrounding communities. However, she knew other national companies, which sold cakes through their catalogs, direct-mail pieces, or through their stores, shipped into her area as well as throughout the United States. The constant national advertising campaigns from these large companies were of major concern to Jill since she did not have the same name recognition or money to compete on their level.

Current Operations

When Jill originally made her decision to expand her business, she asked her sister to help her during the day. Her sister readily agreed but spent a great deal of time chatting and catching up on family news and little time actually helping to produce cakes. Jill also asked her

two older children to help her after school for a few hours each afternoon. Although not the best solution, it worked well for the first few weeks and then her children became involved in after-school activities and could no longer be counted on to be consistently available to help her in the kitchen. It was not until Jill had to make five cakes in one day and both children called to tell her they would not be home, that Jill decided she needed to seriously look for a stable workforce to help her make cakes.

As she explained her dilemma to her family they suggested she contact the Work Wagon, a nonprofit organization that found employment for adults who were homeless or in halfway houses by matching their abilities and skill levels to the employer's needs. Although it took a great deal of extra work on her part, Jill found the workers to be a relatively good, inexpensive labor force that was dedicated and willing to learn and work. She found that special care needed to be taken to ensure that workers were properly trained before operations would work smoothly and that often retraining was necessary. Jill also experienced the same concern with this group of workers that she had with her children; they often had health-related appointments or found other interests which kept them from consistently showing up when they were scheduled to work. In addition, many would often go back to their former living arrangements on the streets or would leave the city for other areas of the country.

Jill mulled over her current worker situation and product line schedule. With her one oven, she could bake two cakes at a time. She had performed a task and time assessment for the working day based on baking procedures, creating the boxes, and filling them with cakes and paper items. The task and time assessment found the estimated time for one complete package to be 2 hours and 55 minutes, with one hour at the end of each day devoted to specific decorating tasks and training.

Training was becoming a burden for Jill who was beginning to feel that all she did was train her workers, which was not why she had gotten into the cake business. She was not only doing the nightly ongoing training but she also had to train new employees. It took approximately three months of intense training before the new employees excelled at the tasks assigned to them. She was concerned about this since, in her mind, more time needed to be devoted to baking cakes and less time to training employees.

Promotional Activity

Although Jill had depended solely on word-of-mouth advertising to keep her business running, that was beginning to change. The Work Wagon featured her in the local newspaper as a smart, local businesswoman who hired many of their workers, teaching them a skill that would last them a lifetime. Through this simple publicity piece, Jill had seen her business almost double. She wondered what would happen if she began to advertise in that same local newspaper.

Thoughts of Expansion

While Jill was thinking over the leap to advertising in the local newspaper, her family was so enamored with her name in print and how much good her business was doing in the community that, over dinner one evening, they began to plant the seeds of expansion. Having taken a few accounting and marketing classes at the local community college a number of years before, Jill knew that to realistically think of selling cakes to people other than friends and family there were several things she would have to consider. She would have to review her cost and pricing situation, speak to the Work Wagon management or other sources about hiring more employees, and make numerous other decisions about the business. First, she would need to contact some contractors to discuss the costs of enlarging her kitchen. A preliminary but realistic estimate from her husband was \$12,500 total. He had also learned that there were no zoning restrictions on expansion. Once she began to take expansion seriously, Jill realized she would need Debbie's help to establish a long-term strategic plan particularly focusing on marketing.

Jill's Research

Before Jill could develop any strategic plan to increase her cake business she decided to gain additional information by talking to people in her hometown about their likes and dislikes when ordering gifts over the phone or through the mail. To accomplish this task and to keep her costs down, Jill asked eight close friends to come and had each of them bring five other people. A total of forty people came, which Jill broke into four different "focus groups"; an adequate number, she thought, to give her the required information.

Results from Jill's focus groups suggested several potential marketing opportunities in three key areas: (1) local customers who are looking for unique gift ideas; (2) businesses who would purchase cakes for incentives or gifts; and (3) customers outside her local area.

Jill needed to decide on many issues as she attempted to put together a plan. One set of issues pertained to marketing. She needed to decide what customer target segments she should aim at and the extent to which these should be local, regional, and/or national. She was unsure how she should reach potential customers with her message, as well as what that message should be, and whether anything should vary based on the target group. Because of the good publicity she had already received in the media, she thought that this might be an important future component of any promotion plans she assembled. Moreover, she was not clear about how customers would contact her. Things were simple enough if she stayed local; but going national might complicate this process considerably.

Timing of her promotion and production plans also hinges on dates for important holidays during future years, although she did not know which ones were most relevant. In addition, Jill was not sure that she could continue her single price for cakes. Her decision on cake prices could vary from a one-price approach to having a price differential for special-order customization outside of holiday orders. She was aware that many businesses used price incentives such as coupons or frequent buyer plans, but she did not know whether this would be a viable approach for her business.

Jill estimated that during the first year of expanded operations she could sell an average of five cakes per day for the first three months, then increase by five orders per day quarterly, until she reached an average of twenty orders per day at the end of the first year. The second year, Jill hoped to double the first year's sales volume, and by the fifth year, she thought sales could reach fifty orders per day. Jill estimated that she would have to invest only \$4,500 in advertising expenses to reach this sales level the first year, which she felt would drop to around the \$1,000 range for succeeding years.

Jill estimated that she could produce cakes a total of 260 days each calendar year. She expected to pay wages of \$5.25 per hour, for an eight-hour day to her workers, and a sales commission of 3 percent of sales. Administrative expenses were estimated at \$1,500 per year. Her cost for shipping each cake is \$3.00 unless a rush order is re-

quired, necessitating a 150 percent premium. Jill estimated the total production cost for 200 cakes as shown in Table C11.1 based on the supplies required. Table C11.2 shows the estimated production times for cakes.

Luncheon Meeting

Jill arrived at the restaurant before Debbie and, once again, wondered if she was doing the right thing by planning to expand her business. As she saw Debbie come through the front door with a big smile

TABLE C11.1. Total Production Costs for 200 Cakes

Business supplies	Per 200 cakes	Unit size	Unit cost
<i>Baking supplies</i>			
Pound cake mix	\$42.72	50-lb. bag	\$ 42.72
Glaze for lemon cake	35.57	50-lb. pail	35.57
Glaze for chocolate bunt	45.48	50-lb. pail	45.58
Chocolate chips	57.98	50-lb. box	57.98
Flavoring for lemon cake	15.00	12 oz.	15.00
Total baking supplies	\$196.75		
<i>Packing supplies</i>			
Tissue paper	\$26.00	400 sheet/box	26.00
Shredded paper filler	21.00	10 lb.	21.00
Streamers strings	3.51	3 oz.	3.51
Confetti	3.80	1-lb. box	3.80
Greeting card	200.00	100	100.00
Brochure	30.00	100	15.00
Hats	80.00	100	40.00
Horn	54.96	100	27.48
Balloon	12.50	144	9.00
Musical candle	400.00	36/box	72.00
Boxes	120.00	100	60.00
Silk screen	360.00	50	90.00
Total packing supplies	\$1,311.77		

TABLE C11.2. Cake Production and Assembly Times

Activity	Time
<i>Production times per cake</i>	
Preparation time (start of each day)	15 minutes
Mixing time	5 minutes
Pouring batter in pans	5 minutes
Baking time	30 minutes
Cooling time	30 minutes
Glazing time	30 minutes
Drying time for glaze	60 minutes
Wrapping time	15 minutes
Clean-up time (end of each day)	30 minutes
<i>Assembly time per ten cakes</i>	
Folding boxes	10 minutes
Folding paper	10 minutes
Placing items in box	10 minutes
Shrink wrap	20 minutes

on her face, she knew her response would be positive. As Debbie sat down, Jill pulled out her notes and was anxious for them to be incorporated into the business plan she needed. Debbie now had the task of producing a thorough and workable marketing strategy recommendation for Jill that included pro forma income statements for years one, two, and five.