

Jill's House of Cakes II

Jill sat looking around her kitchen imagining what it would look like twice as big, crowded with people, all making cakes. She also thought about the possibility of simply moving to town and opening a specialty bakery for her cakes. She had started out small baking cakes for friends and family but somewhere along the line it had developed into a large 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, or, if a bakery in town would be the only solution. Jill knew she needed to talk to someone with business experience that 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 word spread about her cakes and she was making ten to fifteen cakes each month for a good number of customers. Yet, it wasn't until a customer 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 selling three special order cake packages per day for every major occasion and celebration such as birthdays, anniversaries, Christmas, and Easter ordered from a variety of customers and businesses within a three state radius and shipping them all over the continental United States.

A good share of Jill's business involved making and shipping birthday cakes. That 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 which 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 towards 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

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. Jill decided the cost of the cake would be \$21.95 plus a 7% state sales tax along with a \$6.50 charge for shipping and handling; for a total price of \$29.99 per shipped cake. To insure price satisfaction and repeat purchases, Jill would often put in special party favors or other little treasures unique

to the occasion in each box. If she decided to open a bakery, she would continue to charge the same price.

Distribution

Her competitive advantage was that she could ship a cake the same day that it was ordered. 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 often 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 get sent as promised. Her friends had always been understanding about this but she now, with her ever expanding customer base, she was concerned about their reaction if she was late on a delivery. She was also concerned that it would be harder to keep this promise if she were to open a bakery.

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 didn't charge extra for the return trip and the delivery was still sent out on time so, overall, Jill was happy with her delivery system.

Market Entry

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

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, florist shops with their 1-800-order numbers as well as the national florist, 1-800-FLOWERS, were also 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, but she knew other national companies that 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 didn't have the same name recognition or money to compete on their level.

Work Wagon

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 no longer could be counted on to be consistently available to help her in the kitchen. It wasn't until Jill had to make five cakes in one day and both children called to tell her

they wouldn't be home that Jill decided she needed to seriously look for a stable work force to help her make cakes.

As she explained her dilemma to her family they suggested she contact the Work Wagon, a non-profit organization that found employment for adults who were homeless and others who were in halfway houses by matching their abilities and skill levels to the employer's needs and subsidized their salaries \$2 per hour. 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. However, she also 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 coming when they were scheduled to work. In addition, many would often go back to their former living arrangements on the streets, or would simply leave the city.

Task and Time Assessment

Jill realized that before an expansion could be considered she needed to evaluate her current worker situation and product line schedule given she had only one oven that could bake two cakes at a time. A task and time assessment was needed for every working day. Task was based on baking procedures, creating the boxes, and filling them with cakes and paper items. Time was based on personal observation while working with the employees. 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.

The training was becoming a burden. Jill was beginning to feel that all she did was train her worker's and that 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 the new employees. It took approximately three months of intense training before the new employees grasped the tasks assigned to them. She was concerned about this since, in her mind, more time needed too be devoted to baking cakes and less time to training employees.

Promotional Activity

Although Jill had depended solely on word-of-mouth advertising too keep her business running, this 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 has seen her business almost double. She is now wondering 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 encouraging her to either expand her kitchen or open a bakery in town. Jill had thought that she was not ready to open a bakery but expanding her kitchen seemed to make sense. Having taken a few accounting and marketing classes at the local community college a number of years before, Jill knew to realistically think of expanding her business there were several things she would have to consider. She would have to set up a cost and pricing plan, contact contractors to discuss the costs of enlarging her kitchen and speak to the Work Wagon management about hiring more employees. Once she began to take expansion seriously, Jill realized she would also need to establish both a long-term strategic marketing plan as well as a strategic business plan.

Jill's Business Plan

Jill had estimated that net income for her company would grow from \$12,041 in the first year of operation, to \$92,241 by the fifth year. During the first year of operation, Jill expected to sell an average of five cakes per day for the first three months, then to increase by five orders per day quarterly, until she reaches an average of twenty orders per day at the end of the first year. This results in an average of 12.5 cakes per day for the first year's sales. The second year, Jill estimated to double the first year's sales volume, and by the fifth year, sales are projected to reach fifty orders per day. Table II shows the projected sales and costs of goods produced for the first, second, and fifth years of operation.

Jill estimated that she would actually produce cakes a total of 260 days each calendar year. She paid salaries of \$5.25 per hour (her portion) for an eight-hour day to her workers while the Work Wagon paid an additional \$2 an hour to her workers. Her cost for actually shipping each cake was \$6.50 unless a rush order was required. Jill estimated the total "production" cost for each cake to be \$7.54. Table III displays the costs per cake for each of the supplies required. Table IV shows the estimated production times for each cake.

Luncheon Meeting

Jill arrived at the restaurant before Debbie. As she sat down, she pulled out both her strategic business plan and marketing plan all neatly written, ready for Debbie to read. She began to flip through the plans and saw where there might be a mistake or two and wondered if Debbie would notice. As she saw Debbie come through the front door, once again she wondered if she was doing the right thing by expanding her business. Well, it wouldn't be long now before she got an expert opinion, and then the work would start.

Table I

Holidays and other Celebrations for Customized Cakes

Valentine's Day	February 14 th
St. Patrick's Day	March 17 th
Mardi Gras	Late February
Easter	March/April
Secretaries' Day	April
Cinco de Mayo	May 5 th
Graduations	May/June
Mother's Day	Early May
Father's Day	Mid-June
Independence Day	July 4 th
Halloween	October 31 st
Thanksgiving	Late November
Christmas	December 25 th
New Year's Eve	December 31 st
Birthdays	
New Births	
Anniversaries	
Congratulations	
Retirement	

Table II

Projected Sales and Costs

	Year One	Year Two	Year Five
<u>Units of cakes sold</u>	3,250	6,500	13,000
Sales in dollars	\$97468.00	\$194,935.00	\$389,870.00
Expenses:			
Salaries/Wages	21,840.00	21,840.00	32,760.00
Supplies	24,505.00	49,010.00	98,020.00
Shipping	21,125.00	42,250.00	4,500.00
Answering Service	780.00	780.00	780.00
Advertising	4,480.00	1,120.00	1,120.00
Sales Taxes (7%)	4,994.00	9,987.00	19,975.00
Administrative Expenses	1,500.00	1,500.00	1,500.00
Total Operating Expenses	\$79,224.00	\$126,487.00	\$238,655.00
Net Income Before Taxes	18,244.00	68,448.00	151,215.00
Income Taxes	6203.00	26,695.00	58,974.00
Net Income After Taxes	\$12,041.00	\$41,753.00	\$92,241.00

Table III

Cost per Cake and Supplies

	<u>Per Cake</u>	<u>Per 200 cakes</u>	<u>Unit Sizes</u>	<u>Unit Cost</u>	
Baking Supplies:					
Pound Cake Mix	\$.21	\$ 42.72	50# bag	\$ 42.72	
Glaze for lemon cake	.18	35.57	50# pail	35.57	
Glaze for chocolate bunt	.23	45.48	50# pail	45.58	
Chocolate Chips	.29	57.98	50# box	57.98	
Flavoring for lemon cake	.08	15.00	12 oz.	15.00	
Total baking supplies	\$.98	196.75			
Packing Supplies:					
Tissue paper	\$.13	\$ 26.00	400 sheet/box	26.00	
Shredded paper filler	.11	21.00	10#	21.00	
Streamers strings	.02	3.51	3 oz.	3.51	
Confetti	.02	3.80	1# box	3.80	
Greeting Card	1.00	200.00	100	100.00	
Brochure	.15	30.00	100	15.00	
Hats	.40	80.00	100	40.00	
Horn	.27	54.96	100	27.48	
Balloon	.06	12.50	144/gross	9.00	
Musical candle		2.00	400.00	36/box	72.00
Boxes	.60	120.00	100	60.00	
Silk Screen	1.80	360.00	50	90.00	
Total packing supplies	\$ 6.56	\$1,311.77		\$467.79	
Cost per cake:	\$ 7.54				

Table IV

Production and Assembly Times

Production Times Per Cake

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

Assembly Time Per 10 Cakes

Folding Boxes	10 minutes
Folding Paper	10 minutes
Placing Items in Box	10 minutes
Shrink Wrap	20 minutes

Jill's House of Cakes, Homework Questions Marketing, 14th edition, Pride and Ferrell

Marketing in Today's Economy Chapter 1

What are the four variables of the marketing mix? Describe Jill's current marketing mix variables based on the four variables of the marketing mix discussed in the book.

Strategic Marketing Plan

Chapter 2

Write a mission statement for Jill's House of Cakes. Formulate a long-term goal for the company, and then develop short-term goals to help you achieve the long-term goal.

Marketing Ethics and Social Responsibility in Strategic Planning

Chapter 3

Consumers interact with many businesses daily and weekly. Not all of these consumers know about ethical or socially responsible issues that the company may be involved in either positively or negatively. Do you think that Jill's customers know or care if she is behaving ethically or is being socially responsible? Why? Do you think it would affect her business if she changed her hiring practices? Why? If you had purchased a cake from Jill before and you heard that she was changing her hiring practices, would it affect your attitude towards purchasing again?

Collecting and Analyzing Marketing Information

Chapter 4

a) Discuss each of the environmental forces involved in environmental scanning as they would relate to Jill's House of Cakes. b) Specifically discuss technology and assess how technology 1) is affecting and/or 2) could affect Jill's House of Cakes.

Developing Competitive Advantage and Strategic Focus

Chapter 5

Perform a SWOT analysis for Jill's House of Cakes.

Customers, Segmentation, and Target Marketing

Chapter 6

Assessing the factors (individual influences etc.) which affect the consumers as they are going through the consumer buying process, which are the most important factors that Jill should be evaluating?

Product Strategy

Chapter 7

Generally buyers go through a product adoption process before becoming loyal customers. Describe how this process might work for someone who was a potential buyer for Jill.

Pricing Strategy

Chapter 8

a) Compare and contrast price and nonprice competition. Describe the conditions under which each form works best. Which should Jill be using and why? b) Why do customers associate price with quality? How would they associate this with Jill's House of Cakes?

Distribution and Supply Chain Management

Chapter 9

Is Jill currently using an intensive, selective, or exclusive distribution system? What should be her ideal to work towards? Why?

Integrated Marketing Communications

Chapter 10

1. The overall objective of promotion is to stimulate demand for a product. You can do this through stimulating primary demand or selective demand. What would the ad copy and pictures be if you were producing two ads for Jill, one for stimulating primary demand, one for secondary demand?

Marketing Implementation and Control

Chapter 11

Which implementation approach do you think Jill is using and why? If you were personally responsible for implementing a particular marketing strategy, which implementation approach would you be most comfortable using, given your personality and personal preferences? Why?

Developing and Maintaining Long-Term Customer Relationships
Chapter 12

Develop exhibit 12.6 for Jill's House of Cakes. With the understanding that, of the two types of customer expectations adequate performance expectations fluctuate the most; describe situations that might cause adequate expectations to increase, thereby narrowing the width of the zone of tolerance for Jill.