1.0 Executive Summary

Cakes for Occasions has established themselves as a successful and thriving company since its inception. Although Cakes for Occasions is financially sound and reputable, we recommend expansion because the existing store doesn’t allow the company to reach their full growth potential. Expanding will allow Cakes for Occasions to increase their sales and customer base. More locations will also enable them to spread awareness of their brand and product. By opening a new store, they can reach more customers and increase their market share.

The new business plan includes a marketing, operational, and financial plan. The marketing plan is directed at promoting the appearance and taste of Cakes for Occasions’ products through mass media. The operational plan focuses on helping to transition to and prepare the new Natick location. Some facets include personnel, equipment, facilities, and human resources. Finally, the basis of the financial plan is to provide enough funding to maintain operations and support the marketing plan. All of these efforts will allow for steady growth and provide customers with the best product.

From the opportunity assessment, an important issue involves establishing the primary target demographics for Cakes for Occasions. Another issue in this section was assessing the current situation of competitors and the market overview for bakeries. In the marketing plan, the main issue is determining which forms of media should be used to promote and reach the most people in our target group. Another issue is determining the location for the new store based on the number of target consumers within a specific radius.

Furthermore, operational issues include determining the process flow, equipment, and distribution needed to support the new location. In addition, determining the ideal capacity and supply chain are important in maintaining smooth processes and turning raw materials into products. Next, issues in the financial plan include how much external funds will be needed to support operations and sustain a level of performance and consistency.
2.0 Mission Statement

The current mission for Cakes for Occasions is accurate, however to be more effective, it needs to be elaborated. We feel the statement regarding using the “finest and freshest ingredients” should have a more direct connection to the company’s ability to “wow” customers. It is important to spell out that the freshness of ingredients leads to a quality product. The end result, whether it is a cake, pastry or cookie, is fresh and customized. Cakes for Occasions should promote the fact that they customize their cakes to transition themselves from the general “bakery” market to the “specialty cake retailer” market.

The current mission statement does not specify who or how the brand is developed. In addition, the idea that courteous employees create relationships with customers and vendors needs to be elaborated. We would like to include the idea that a high level of customer service and a clean and pleasant atmosphere will improve the reputation of the company.

These suggestions lead to the following revised mission statement:

“To always use the finest and freshest ingredients to create baked goods superior to the competition in terms of taste and appearance. These quality, customized products will allow us to “wow” our customers each and every time. We will continue to build our brand and relationships with our customers and vendors through courteous and knowledgeable employees. By providing a clean and pleasant atmosphere with exemplary customer service, we will continue to expand our company.”
3.0 Current Situation

Cakes for Occasions, a gourmet bakery with a single location in Danvers, Massachusetts, specializes in custom designed cakes and pastries. They currently decorate over 10,000 cakes a year, all of which are able to be customized to the buyer’s request. Weddings account for 20% of their business; these cakes are sold directly to couples or wholesale vendors. The target demographic for their products is women ages 30-45 and the current customer base is primarily located in the North Shore area.

In order to avoid being restricted to only one area, Cakes for Occasions is looking to expand their target market by possibly opening up several new locations. A potential second site has the opportunity to be an additional retail storefront. An ideal location is within one hour of the Danvers store, allowing Cakes for Occasions to transport batter in a timely manner. Once the batter arrives at the new location, bakers and decorators will be on site to customize the cakes.

Although this new location can be self-sustaining, the consistency of the product will be jeopardized. To avoid inconsistency, the batter will be made in the Danvers location and then transported to the new location. Another challenge that will need to be surmounted is the issue of transporting batter from the Danvers location to the new location without the batter spoiling. The batter will need to be frozen and then brought to the new location. Once the batter arrives at the new location it can be thawed, additional ingredients can be added to the batter and then it will be baked.

The primary challenge presented is choosing the most financially sound strategy for Cakes for Occasions’ future. Our options consist of creating an additional storefront with a kitchen or having no additional location. In the process of achieving this goal, it is crucial to keep in mind the mission and values of Cakes for Occasions.
4.0 Opportunity Analysis:

4.1 Overview of the Bakery Market

What are the annual industry sales in dollars for these products?

For annual industry sales of the Candy, Bakery, and other food stores Market in the U.S. see Graph 4.1.1. For annual industry sales for bread production in the U.S. see Graph 4.1.2. It is useful to classify the industry competitors into groups to analyze individual products’ annual sales. The groups are stand-alone bakeries, which focus on cakes, pies and pastries, and/or breads, and in-store bakeries.

Stand-alone bakeries are not connected to any supermarket or larger establishment. They can focus on one product or many. Those bakeries, which provide a large number of products, can count on increased amounts of sales from impulse buying as well as increased sales from individual’s temporal states when they enter the store. Most stand-alone bakeries have higher prices than in-store bakeries because they are not able to buy in bulk, increasing their costs per unit. These higher costs transfer over into the price of their products. To make up for this, many stand-alone bakeries make their products with special ingredients or at a higher quality level than chain establishments. For our purposes, we are dividing stand-alone bakeries into those selling cakes, those selling pies and pastries, and those selling bread.

Bakeries which sell only cakes, or base a large portion of their business on cakes, are very limited in their possible sales and expansion of sales. Since they only have one product they will lose out on a significant amount of impulse buying. Despite this fact, the cake market is quite profitable. For example in 2006 the total amount of sales for cakes was $5,406,000,000. In 2008 total cakes sales exceeded the 2006 mark and increased to $5,667,000,000, a 4.8% increase from 2006. As most of the competitors in the bakery industry are small, it is possible to take a portion of this large market.

A majority of pastries, cookies, and pie sales’ revenue is from in-store bakeries, leaving only an average of 34% of cake purchases from actual stand-alone bakeries; 11% of which are gourmet shops. Strong branded competitors are responsible for the majority of revenue due to their shelf-life advantage. Their products are capable of staying in the store before being purchased while maintaining the same quality to customers. Both purchase venues provide similar products.
In 2008, bread production through specialty bakeries only accounted for 4.8% of sales. In addition, it is expected to decline in 2009 due to the economy and spending trends. Although bread production does not directly affect CAKES FOR OCCASIONS, it is part of the bakery industry and thus reflects common trends in the current market place.

**How fast is the market for these products growing or declining? Why?**

In the U.S. Candy, Bakery, and Other Food Stores industry, there was a 5.6% decline in revenue in 2008, and it is projected to fall by 6% over 2009. Declining wealth and rising unemployment raises feelings of job insecurity. During these economic times, people will reduce spending on discretionary food purchases. Candy is seen as premium products sold at a higher price compared to foods sold at the grocery store or supermarkets. Therefore, during these tough times, people will opt for the lower cost items. See Graph 4.1.3.

**What are the current issues and challenges for the providers of these products’ producers?**

In Tables 4.1.4, 4.1.5 and 4.1.6, respondents were asked to check all the bakery items they purchase at the four types of bakeries: pre-packaged, in-store bakery, special order bakery, and free standing bakery case. Customers buy most of their baked goods from in-store bakeries. In-store bakeries account for the highest percentage of purchases for baked goods such as non-customized cakes, pies and tarts, pastries, and sweet breads.

Special order bakeries are where customers are most likely to go for custom decorated cakes, wedding cakes, and overall hand decorated goods. However, the information shows that customers tend to purchase the least amount of other products, such as cupcakes, cookies, and whoopee pies, from special order bakeries. Special order bakeries are most likely to receive orders for customized products instead of generic goods.

**How do these trends impact the desirability of opening a new location?**

Knowing the types of bakeries customers visit to buy particular baked goods helps determine which bakeries are competition. Customers tend to go to special order bakeries for most of their custom-made needs.

**4.2 The Macro Environment**

**Culture: How does the region’s culture affect purchases of these products?**

Cakes for Occasions’ current customer base is generally located within the North Shore region. When the respondents who said that Cakes for Occasions was their favorite bakery were
asked why it was their favorite, quality, customization, and nut-free products were the three top responses (See table 4.2.1). Other respondents, who did not list Cakes for Occasions as their favorite bakery, when asked the same question, did not mark customization or nut-free products as highly. (See table 4.2.2). From region to region, the values in the quality of a cake may change, so if a business were open in a new location, it would need to be aware of the values of the community.

For those who mentioned that they did not have a favorite bakery, when asked why, many respondents said that they do not buy enough baked goods or there are no bakeries around. See table 4.2.3. Smaller regions that don’t emphasize involvement are less likely to purchase custom made bakery products. This is because special occasions will occur less frequently. As shown in Table 4.2.4 and 4.2.5, most respondents who live in rural areas only purchase bakery items 0-5 times per year, while those who live in suburbs or the city tend to purchase these goods more often. Convenience comes into play with an active community, as people will want to purchase a product located around other businesses, “discouraging them from making additional stops on shopping trips42”.

The respondents who earn a higher income are more likely to purchase specialty cakes, as a higher percentage of respondents whose family income is greater than $75,000 tend to purchase from a special order bakery more often as shown in Tables 4.2.6 and 4.2.7. Regions with a higher standard of living will purchase more often because they tend to have more money to spend.

Demographics: Which demographics purchase cakes the most often?

In-store bakeries are one of the largest competitors to Cakes for Occasions. In a survey conducted by Mintel (Table 4.2.8), 69% of women stated that they purchase goods from in-store bakeries26. Between men and women, women are the larger purchasers of cakes. Another large group of in-store bakery consumers is the older generation; 69% of ages 65+ and 66% of ages 55-64 purchase from in-store bakeries. Ages 18-24 buy the least amount of cakes out of all the generational cohorts43.

When referring to Table 4.2.9 and 4.2.10 we see that overall in-store bakery items are purchased mostly by Whites. Blacks purchase the least amount of in-store bakery items, and Hispanics are in the middle of the two41. People in the “Other” category have lower rates of purchase from groceries but are much more likely to purchase from full-service bakeries, in-store
bakeries, as well as natural foods and convenience stores. Black consumers purchase the least amount from in-store bakeries but purchase more full service bakeries because many of them are likely to live in highly populated urban areas where there are fewer grocery stores with in-store bakeries. Out of the different groups, Hispanics purchased the second most (second to the “Other” group) from full service bakeries\textsuperscript{26}.

When considering the purchase of cakes and cupcakes in general, not just from in-store bakeries, \textit{The New Strategist: Who’s Buying Groceries} states that “married couples with school-aged or older children at home spend 73-80\% more than the average household.” Through research collected from The New Strategist and through the survey data that we collected, the following information about demographics has been observed:

\textbf{Age of Householder:} The largest spenders of cakes and cupcakes are adults between ages 35 and 54 with 20\% more spending than the average household. See Table 4.2.11. This age group also holds the largest market share. Table 4.2.12 displays the different ways 35-54 year-olds finds out about new stores. The data collected from the survey shows that of the people ages 35-54, most people find out about new stores from their friends.

\textbf{Household Income:} New Strategist shows that those with an income of over $100,000 spend 64\% more on cakes than the average household and also hold the biggest market share. Those with an income of under $20,000 spend the least on cakes and cupcakes per year however they do not have the least market share. People with an income between $70,000 and $79,000 hold the least market share. This means, while people with an income of $70,000-$79,000 spend more on cakes and cupcakes, they spend less often. New Strategist shows that as household income increases the spending on cakes and cupcakes increases as well. While this may be true, the Table 4.2.6 survey data shows that the number of times the respondents purchase bakery goods each year is not reliant on his or her income. This indicates that households with higher incomes purchase the same amount of cakes as those with lower incomes, but they purchase more expensive cakes and cupcakes.

\textbf{Household type:} Married couples with an oldest child between ages 6-17 spend 80\% more than the average household and hold the largest portion of the market share. Married couples in general hold more of the market share (66\%) in comparison to single people with or without kids. Single people without kids spend the least amount on cakes and cupcakes, 53\% less
than the average household (See Table 4.2.13). Therefore, those with children living with them are more likely to spend more money on cakes and cupcakes.

**Race and Hispanic Origin:** Asians spend the most money on cakes (21% more than the average person). However, they hold the least amount of market share. This means that Asians buy the least amount of cakes or cupcakes, but when they do purchase them, they spend more. Non-Hispanic, white, and other spend 5% more than the average person. They hold the largest percent of market share: 80.8% of the market. The Mintel charts show that Blacks spend the least on in-store bakery items but are in the middle range of spending when it comes to full service bakeries. The New Strategist charts show that in purchasing cakes and cupcakes, Blacks also spend the least but do not have the smallest market share.

**Education:** Those with less than high school graduate education spend the least on cakes and cupcakes. Those with Master’s, Professional, and Doctoral degrees spend 45% more than the average household. College graduates in general have 31.1% of the market share.

**Social Trends:** What social trends affect the purchase of cakes?

Based on secondary sources, the information indicated that consumers have become more health conscious in recent years; hence, a growth in the demand for foods with a healthier image. However, based on the data collected from the survey, respondents show that health-consciousness is not a high priority for cake buyers.

In completing Tables 4.2.14, 4.2.15 and 4.2.16, respondents to indicate the level of importance of a number of bakery aspects, including ones related to the health trend: all-natural ingredients, organic ingredient, sugar-free products, kosher ingredients, gluten-free products, and nut-free products. After receiving the participants’ responses which consider the list of bakery factors as “somewhat, very, or extremely important,” these percentages were grouped together and ranked from largest to smallest (Table 4.2.14). Five of the six previously mentioned health-related factors ranked last in levels of importance. The results show taste, store cleanliness, and use of quality products as the top three factors that help buyers select between bakeries. From this we can conclude it is in fact true people are more concerned over what they consume than in previous years, but the concern is not of high-level importance. Customers are more likely to choose a bakery based on the taste of its cakes rather than its nutritional qualities.

**Technology Advances:** How does technology impact purchasing cakes?

The main marketing channel for bakeries is word of mouth; Table 4.2.17 shows 97.7% of
all respondents hear about bakeries through friends. While word of mouth is the foremost source from which respondents hear of new bakeries, Table 4.2.17 shows technological sources such as social networks (i.e. Facebook and Twitter) present a combined total of nearly 12% of responses. Graph 4.2.18 shows the sources from which 35-54 year olds find out about new bakeries. Although internet search acquired 43.5% of overall responses, internet ads only received 13.6%. Therefore, technological response doesn’t suggest that advancement in other internet sources are needed to actively promote bakeries because they minimally impact the purchases of cakes. Survey results from respondents who identified Cakes for Occasions as their favorite bakery and others who did not were similar. The leading source of information regarding bakeries is word of mouth for all respondents; Facebook and Twitter were among the least. These common responses support the conclusion that currently technology has a small impact on consumers’ purchase of cakes.

**Economic Situation: What is the 5-year outlook for Massachusetts’s economy?**

Although Massachusetts in particular has seen worse recessions, the current economic times are hitting the state hard. It is expected that financial troubles will linger longer than in the rest of the country. Forecasts of the nation’s economy show it rebounding by the fall of 2009 but a nonprofit research group, New England Economic Partnership, predicts Massachusetts’ economy will not turn around until 2010\(^22\).

"My best judgment is that a rather slow recovery is likely," stated Eric Rosengren, president of the Federal Reserve Bank of Boston. "Unfortunately, such a forecast implies continued weakness in the labor market, and an unemployment rate that continues to rise through this year." As of May 2009, the state had lost 120,000 jobs, equating to eight percent unemployment, as a result of the recession. Ross Gittell, a professor and analyst with the New England Economic Partnership, estimates the region's economy is about two-thirds of the way toward hitting bottom. Once the bottom is hit around mid-2010, it is projected the state will have lost more than 200,000 jobs, the highest unemployment rate since 1976\(^22\).

Because the state’s key industries are still intact, there is definite hope that by the end of 2013, five years from the start of the recession, Massachusetts will have returned back to normal employment and consumption levels. Although 5 years to regain stability seems long, the 1990 recession took 9 years to climb out of and the after effects of the 2001 recession linger as many jobs have not recovered\(^22\).
Why is the economy so important for the sale of cakes?

When there are two income earners, there is frequently enough disposable income to cover all needs as well as some wants of the household. When one, or both, of these wage-earners are unemployed, it is very important to prioritize what is consumed. Extravagant cakes are not a necessity, especially on a tight budget. It is reassuring to Cakes for Occasions that 72 percent of their clientele are more concerned with the quality of the product than the price but competitive prices are crucial to success. Prospective customers of bakeries will decrease because more people are turning to the reduced prices in supermarkets.

Political/Regulatory Environment: What current regulations impact the production of cakes?

The baked goods industry is not highly regulated by the government. There are no large taxes placed on baked goods nor are there any specific tariffs. However, like all other foods industries, the baked goods industry is regulated in terms of sanitary measures and specific weight measures used in baking. Chapter 94 of the General Laws of Massachusetts, which can be found in Appendix 4.2.19, deals with these regulations.

4.3 Market Values

We have divided the market values into those for the product and those for the facility.

Why are the tables structured the way they are?

Table relating to product: The following section refers to table 4.3.1.

Customers are seeking quality goods from bakeries. How they identify what quality is, depends on their values. For this reason, quality is not explicitly given in the table; instead, table 4.3.1 depicts all the values the customer may hold that contributes to their perception of what quality is. Tables 4.3.2, 4.3.3, and 4.3.4 show taste, appearance, freshness, and other traits as contributing to the quality of the finished product. Based on responses in Tables 4.2.14, 4.3.2, and 4.3.5, the order of these attributes may have been rearranged.

It is clear from responses that texture and flavor of the cake, characteristics that determine overall taste, are the customer’s priorities when selecting a cake. Taste was the highest ranked trait on Table 4.2.14 and Table 4.3.2. Enhancing the quality, freshness, and taste of products was frequently given as a response in as suggestions for improving the bakery. Freshness, as mentioned above, figures into how the product tastes. The quantity of responses in
Table 4.3.2, suggesting this characteristic as being crucial to quality, shows it must be placed high in the table of values above. Open responses to what quality means for a cake indicates freshness can be broken down to the ingredients and overall product. Attention to cake ingredients continually appeared in responses as an important quality. The specific ingredients that need to be focused on, however, varied tremendously. Several respondents mentioned that quality cakes should focus on nutritional and healthy ingredients. Other respondents had allergies to nuts or gluten which dictated their purchases or tried to keep kosher. Please see Table 4.2.14. No single ingredient had a significant percent of respondents but overall awareness of what ingredients are being used is important.

Appearance and price are difficult to rank as one being more or less important than the other. In general, the sample who designated Cakes for Occasions as being their favorite bakery were much more concerned with appearance than price. Design and decoration were placed much higher in the Cakes for Occasions’ customers (Table 4.2.14) than that representing the general population. They are aware of Cakes for Occasions’ products and their continued loyalty demonstrates it is already a value. The general response in the remainder of the sample indicated that the taste was much more important than the appearance. This is evident in the difference in percentages in Table 4.3.2 as well as difference of rankings in Table 4.2.14.

The general population was relatively concerned with prices being reasonable. The participants in the focus group stated that price was important, but they would be willing to pay more money for a higher quality product. Table 4.2.14 elaborates on the idea that price is important but not critically important. Roughly 33% of respondents said it was somewhat important, 30% thought very important and only 21% said extremely. The fact that a cumulative 84% of respondents thought it was important is why price earned a spot in the middle of the chart. Those customers that frequent Cakes for Occasions also saw the importance in maintaining a reasonable price.

Variety of products is one aspect that is lower on the list of values but still must be taken into account. Table 4.3.5 shows many people suggested improving a bakery by increasing the variety of products produced. This idea is also relatively high on Table 4.2.14. The reason it is placed lower, however, is because it is not mentioned in Table 4.2.14. Because nobody identified variety as synonymous with quality, we don’t feel it should be any higher.

Customization is not very important overall, only for special occasions. No respondents
suggested more opportunities for customization for Table 4.3.5. Table 4.3.2, however, shows a difference between the opinions of those that currently list Cakes for Occasions as their favorite bakery and those that don’t. Of Cakes for Occasions customers, 9.1% deemed it was important for a cake to be made to order whereas only 1.6% of others agreed with this statement.

Customization is not critical to many people; however, it is valuable to Cakes for Occasions customers.

Table relating to facility: Please refer to table 4.3.6

The store cleanliness is the highest priority when making judgments about the bakery. 4.2.14 shows about 90% of people consider cleanliness and appearance to be important traits, slightly higher for Cakes for Occasion’s customers and slightly lower for all others. Regardless, it is one of the first attributes noticed and contributes to lasting impressions.

The staff interactions can increase or decrease the customer’s satisfaction. Also placed high on the list of important characteristics was the staff being both friendly and knowledgeable. Pleasant employees create great customer service, which is a highly important quality in the retail industry. This generates a positive reputation which will be spread through word-of-mouth communication.

Referrals build trust. Therefore, the more the name of a bakery is cited by many different sources, the more a potential consumer is willing to give it a try. Responses in Table 4.2.14 shows that if respondents were unsure about trying a new bakery, referrals could sway them in one direction or another. Over 63% percent of all respondents value referrals.

Survey respondents determined that the location of the facility is important but slightly less than other characteristics. The better the reputation, the more out of their way customers are willing to go. Convenience is appreciated but the more the customer perceives visiting the bakery as an unfulfilled need, the less important convenience becomes. The availability of parking is one aspect of location that will continue to dictate the quantity of customers that visit the location. This concept was stated in both the focus group and survey responses shown in Table 4.2.14 and 4.3.5.

The last value that survey participants stated was in favor of coupons, sales, and other promotions. This is placed at the bottom of the list of facility values because it does not fit at all into the cake itself. These advertisements raise awareness of the store and the products it offers. Table 4.2.17, however, states significantly more people learn about new bakeries from word of
mouth than store-generated promotion. The reason it is included is because Table 4.2.14 shows that customers do consider it a value. Cakes for Occasions’ customers place this category as a higher priority than non-customers.

**How do these values impact the ability to enter the market?**

**Relating to the product:** For the following section, please refer to table 4.3.6

If customers receive a product with a texture and flavor that doesn’t suit their taste, their needs won’t be satisfied, and the business won’t be successful. If customers cannot get the great taste they are looking for, then there is no reason for the business to even enter the market. Freshness has a similar impact. When asked for recommendations on how bakeries could improve their products or service, several people mentioned that freshness is key, as shown in Table 4.3.5. But the fact that so many people suggested bakeries improve freshness hints that there is room in the market for improvement. If a bakery can produce products with the freshest ingredients, then they should have no problem entering the market.

If people are willing to travel farther to purchase a quality product, then they will most likely be willing to pay a higher price, as well. Therefore, if the quality of the product is high, it will be easier to enter the market, and prices will not be an issue.

The more variety there is in the product, the more likely the customer will find a product that suits their need. If the product is customized to fulfill customer needs, then the customer will be more likely to buy. Although people value customization, it is not a significant factor when evaluating the ability to enter the market. More Customers who listed Cakes for Occasions as their favorite bakery are willing to travel over 45 minutes for high quality custom made cakes than those who did not choose Cakes for Occasions as their favorite bakery (See Tables 4.3.8 and 4.3.9). This shows that it will be difficult to reel in new customers if the business is not in a good location, because many people are not willing to travel as far for custom made goods.

**Relating to the store:** For the following section, please refer to table 4.3.6

Store cleanliness is extremely important because no customer will go out of their way to visit a store that is not clean and unsanitary. The appearance of the storefront is the deciding factor of whether or not many customers enter the store. Of respondents, 93.56% stated it as either somewhat, very, or extremely important as shown in Table 4.2.14. Many customers recommended that bakeries need to have a clean store atmosphere. This shows that there is room
for improvement, so any bakery with an exceptionally clean atmosphere has a competitive advantage.

Customers will not want to travel to a store where an unknowledgeable and unpleasant staff. Many respondents suggested the bakery staff should greet the customers with a smile and be able to help them in decision making. 88.07% listed this value as either somewhat, very, or extremely important, as shown in Table 4.2.14. If employees are too difficult to deal with, customers won’t have a pleasant experience and will not return.

4.4 Buying Process

What level of involvement is associated with the purchase of a cake?

The buyers of Cakes for Occasions have a high-involvement in the decision process. What level of involvement is associated with the purchase of a cake? Wedding cakes comprise of 20% of the sales. Most of the products sold are birthday cakes. Because consumers prefer to customize their birthday cakes, they spend a lot of time deciding what they want incorporated. According to sections 4.2 and 4.3, the survey analysis shows that respondents have a multitude of important factors in selecting bakeries including, but not limited to: quality, store design, hospitality, ingredients, and taste. As a result, consumers use extended problem solving to determine the best cake for them. According to Gatehouse News Service writer Brent Lang in his article Checkout Lane states, “careful planning is essential to ensure that the last person to get a slice isn't left with a sliver. Lang believes that customers make sure that the type and amount of cake is appropriate for the specific occasion.

What is the buying process a customer looking to purchase a cake goes through?

When purchasing cakes, the first step is to recognize an unsatisfied need. Consumers buy cakes for special occasions, including weddings, birthdays, anniversaries, and other special events. According to the Table 4.1.4, 60.4% of the respondents wrote that they purchase custom decorated cakes from a special order bakery, which had the highest response. Buying a cake fulfills a functional need because it satisfies the traditional value of having a cake during a special occasion. In addition, it is a psychological need because the customer wants a cake that makes the occasion special and will impress others.

The next step in the decision process is searching for information. The consumers’ external search for information is strong when searching for bakeries. According to Table 4.2.12, respondents age 35-54, the largest consumer age group, find out about bakeries through
four main modes: friends (97.29%), driving by the store (78.68%), internet search (36.43%), and newspaper advertisements (34.88%). However, a lot of the search for information reflects back on previous experiences of buying and eating cakes. In addition, consumers have an internal locus of control in the decision making process. As stated earlier, customers spend a lot of time deciding what their cake should look like. As a result, consumers have significant control over the design and cost of the cake. The length and intensity of this search also depends on the occasion. For example, wedding cakes have higher financial and psychological risk than those cakes for other occasions because money and self-image is on the line. Wedding and custom cakes, examples of specialty goods, require more intensity and time in search than shopping goods such as cupcakes and cookies.

The third step is evaluating which venue to buy the cake from. A majority of the population purchase from their evoked set, one of which includes a favorite bakery. According to Table 4.4.1, 59.3% of the respondents stated they have a favorite bakery; these bakeries are located in Table 4.4.2, 4.4.3, 4.4.4. Referencing Section 4.2, more than 70% listed that quality was the reason that their bakery is the favorite. Other important factors include freshness, convenience, variety, location, and the ability to customize. Quality is a determinant attribute for prices, and customers may be willing to spend more money and travel farther for better quality. According to Section 4.3, 41.9% of total respondents are willing to travel more than 45 minutes to get to a top quality bakery to purchase a wedding cake. The reputation of being a high-quality bakery can supersede convenience for buyers, especially if the cake will fill an unfulfilled need.

The fourth step in the decision making process is the physical purchase and consumption of the cake. The customer purchases the one with the best value. Cakes generally last only a few days, a bit longer if refrigerated or frozen. After eating the cake, the final step is evaluating the purchase. Satisfied customers will continue the cycle of word-of-mouth, encouraging people who are looking to purchase cakes. However, according to Tables 4.4.5, 4.4.6, and 4.4.7, customers are willing to try new products and locations. 24% of the total respondents are very likely to try a new bakery that focuses on hand decorated goods. In addition, 59.8% of respondents who listed Cakes for Occasions as their favorite bakery are very likely to try a new bakery. The respondents wrote that they are willing to try new ideas and create a unique product. Therefore, even though word of mouth is a prominent form of communication in this
industry, consumers can sacrifice loyalty for quality in other products and bakeries. This is not a form of dissonance but instead a concern for bakeries trying to retain loyal customers.

Who influences the purchase of a cake?

The purchase of cake is affected by social and situational factors. How the consumer views the event that the cake is being purchased for affects the type of cake bought. If they perceive the event to be significant, they will buy a cake with higher quality. Along the same lines as the perception of the event’s importance, attitudes toward the situation affect the purchase. Attitudes incorporate feelings and reactions into purchasing behavior.

Socially, the consumer hopes the cake appeals to others at the event. The attendees can be divided into the categories of family or reference groups (friends and acquaintances). Memories are very often connected to food. When people think of fond memories, the food served comes into mind. In addition, it is important to gage the amount of cake to buy. “You have to know if your crowd is full of big cake eaters. If people love cake, something that serves 150 might only serve 50”[45]. Purchasing too much cake runs the risk of spending too much money; however, buyers want to make sure everyone has enough to eat as well[45].

Finally, situational factors affect the consumer decision process. They are less influential because the level of involvement is relatively high when purchasing cakes, as stated in the level of involvement section. The more planning involved, the less situational factors will affect the outcome[42]. This is because there are significant risks to be considered, such as financial risk. A consumer will go into the bakery knowing approximately how much they plan to spend. Situational factors such as a promotional discount might encourage an unsure customer to buy a cake but it is less likely a sales person would be able to persuade a well-prepared customer to purchase a more expensive cake than they budgeted for. In relation to managing financial risk, consumers will spend less because of situational factors, but will not spend more[45].

How does this impact the ability to enter the market?

To enter the market, the new location must be in an area where there is a high social interaction. Active communities provide venues for lot of word-of-mouth communication and promotion, two factors that drive the baked goods industry. The activeness of a community can be judged by the participation in institutions and activities including libraries, parks, recreational events, and other social outlets. They are important tools that help tie people into the community and help create a wider network of support[54].
In addition, married parents with school-aged children are often involved in these activities and thus affect the ability to enter the market with a new location. Section 4.2 points out that this demographic is the highest in cake consumption. As a result, this segment of the market must be considered in choosing the new location. This population, married parents with school-aged children, is substantial enough for a location to be profitable.

Market entrance ability is dictated by the location of the bakery. If the bakery is situated in an area of high social interaction, potential customers will naturally talk about it in conversation. The more advertising from word of mouth and social interaction, the greater the potential profits will be.

4.5 Main Competitors

Competitors in the bakery market are classified into two groups: stand-alone bakeries and in store bakeries. Each grouping presents unique threats and opportunities for a new bakery.

Despite the fact that in store bakeries account for nearly $2.3 billion dollars worth of sales in 2006, survey results show that individuals do not favor in-store bakeries either attached to a restaurant or a grocery store. Survey data in table 4.5.1 show that bakeries in grocery stores and restaurants combine to be the least favorite of those respondents. Collectively, they account for less than 15% of all respondents’ favorite bakeries. Furthermore, when asked how satisfied they were with in-store bakeries, the vast majority of respondents were indifferent. In fact, table 4.5.2 shows that slightly less than 25% of all respondents were neither satisfied nor unsatisfied and another 25% were only somewhat satisfied. Although in-store bakeries, especially those at grocery stores, offer a wide variety of low cost products, these products do not exceed customer expectations or fulfill customer satisfaction. This would suggest these buys are convenience buys while people are already shopping at a store or eating at a restaurant. When looking at the numbers for respondents who did not list Cakes for Occasions as their favorite bakery, according to table 4.5.2, 18% of all respondents’ answers showed that both types of in-store bakeries, grocery stores and restaurants, were their favorite. In addition, less than 50% of non Cakes for Occasions customers were neither satisfied nor unsatisfied when it came up to how satisfied they were with in-store bakeries. This data suggests that in-store bakeries are less of a threat to the market. Most of the purchases seem to be impulse buys, which provide little satisfaction to the customer.
Free-standing bakeries only account for a minority of total baked goods sales, however they are dominant in terms of satisfying customers’ needs. According to table 4.5.1, all free standing bakeries are responsible for about 85% of customer’s favorite type of bakery. The most popular type of free-standing bakery focuses on cakes, which is 40% of total respondents. Pastry-focused bakeries are the second-most popular with about 24% of all responses. According to table 4.5.2, most customers report that they were very satisfied with their bakeries. Responses for all free standing bakeries peaked at very satisfied.

Based on survey results, free standing bakeries tend to satisfy their customers more than in-store bakeries. Free standing bakeries provide customers with higher satisfaction, and would therefore be a bigger threat to gourmet bakeries. Despite survey results showing this fact, secondary data shows the opposite trends. In-store bakeries sell more than those that are free standing. For example 95% of all cakes are bought at in store bakeries22. Without the primary data, it would seem as though in store bakeries are a bigger threat to gourmet bakeries. However, due to the difference in customer satisfaction mentioned in table 4.5.2, it appears that free standing-bakeries are the more threatening competitors. According to table 4.4.1, 40% of all respondents to the survey said they did not have a favorite bakery. Therefore when entering into a new market, new gourmet bakeries can potentially have a large portion of customers who can be loyal.

4.6 Wedding Reception and Special Occasion Locations
How do the locations of wedding reception halls impact the selection of a new site?

There are over 500 wedding and special occasion locations located within 50 miles of Boston53. Please see Table 4.6.1. By mapping these locations using MapPoint, Cakes for Occasions can visualize their potential customers and targets within their driving radius. These locations are shown on Map 4.6.2. With this quantity of locations within the Boston area, the company has a high facility base to target when making and delivering wedding cakes.

When analyzing the map, there are several locations marked outside the 50-mile radius, especially outside Route I-495. Even though these facilities are outside of the I-495 boundary, they present potential locations for Cakes for Occasions to consider expanding. In addition, Worcester, MA and Providence, RI are two cities outside I-495 that contain many wedding and
banquet facilities. With both those cities being affluent towns, they present a great opportunity for Cakes for Occasions to develop, even though it will require them to build a kitchen.

4.7 Current and Potential Market Problems and Opportunities

What are the main marketing problems?

• Consumers are willing to try new things, compromising customer loyalty.
• Customers’ primary way of finding out about new bakeries is through friends and word of mouth. This poses a problem because Cakes for Occasions has little to no control over word of mouth.
• Customers are very satisfied with products from free standing bakeries, specialty competitors’ main competitor.
• Customers seek a convenient location and will settle for bakeries that are closer to home for daily goods.

What are the primary market opportunities?

• For high quality custom cakes, such as wedding cakes, people are willing to travel over 45 minutes.
• Since about half of respondents said that they didn't have a favorite bakery, there is a significant opportunity to attract loyal customers.
• Appearance of the storefront is an important factor which has the ability to attract more customers.
• Respondents seek nut-free, quality ingredients.

What are the keys to being able to enter this market?

• Location is a crucial aspect in bakery selection. It must be convenient and have ample parking.
• Participants value a quality product over all other values.
• Although the taste of cakes is more important to customers than the appearance, marketing towards the look of the product is essential.
• Because high customer satisfaction from free standing bakeries, the location must be far enough away to avoid direct competition.
5.0 Marketing Strategy and Implementation

5.1 Marketing Strategy Keys

How will Cakes for Occasions satisfy customers, develop long-term relationships, while generating distinct competitive advantage in order to exceed customer expectations?

Cakes for Occasions aims to satisfy customers by producing a visually appealing product. The product provided will also be satisfying in taste because customers value both taste and appearance. In addition, a distinct competitive advantage comes from having a presentable storefront. By having a clean storefront, customers will be encouraged to come in and look at the products.

Producing a consistent product will bring repeat business to Cakes for Occasions and allow for long-term relationships with its customers to be developed. Through its promotion strategies, Cakes for Occasions can maintain awareness of the product. By creating a customized product that is fresh and tasty, Cakes for Occasions will be able to distinguish themselves from competitors. In order to exceed customer expectations, the staff must be knowledgeable about the product and be customer-focused.

5.2 Segmentation and Target Market Strategy

Table 5.2.1 demonstrates all the possible ways to segment the market. Geographically, the consumers of Cakes for Occasions are all U.S. residents, living in the New England area. Although the majority of customers are currently in Massachusetts, we could segment potential clients into those from New Hampshire, Rhode Island, Connecticut, Maine, and Vermont. Another way to segment geographically would be to target those in particular counties or neighborhoods, which includes city, suburban, or rural.

Demographic segmentation can be divided up into numerous ways: age, gender, income, ethnicity, education, number of children, or type of household. Because this table is a listing of all possible ways to segment the market, several divisions for each demographic are shown. For more details, refer to the demographic segmentation table in Table 5.2.1.

Loyalty segmentation relates to those who are already loyal to Cakes for Occasions, those who are not, and those who are not loyal to any bakery. Possible benefits customers can attain
are segmented into taste, quality, convenience, and demonstration of love and support. Opportunities for geodemographic and psychographic divisions are also listed in Table 5.2.1.

From all the segmentation possibilities in Table 5.2.1, Table 5.2.2 drafts a list of the best potential target segments. The segments listed are families with two parents living with two or more children, women ages 35-54, Massachusetts residents, and those not loyal to a bakery.

From this table, we further narrowed down the target groups to arrive at the best segments to focus on. The row in Table 5.2.2 regarding those who do not have a favorite bakery is not identifiable enough to state as a major segment that we are trying to target.

In conclusion, we are attempting to market to:

- Families with both parents and children living together in Massachusetts
- Women living in Massachusetts that are ages 35-54

The first target segment will be more profitable in the long run. The reason is that although the parents will be buying the cakes now, the children will recognize the brand name at a young age. It will become part of their evoked set as they grow older and become more likely to buy cakes. In contrast, women 35-54 will age and thus decrease their cake purchases over time.

5.3 Positioning

Key attributes:

Cakes and assorted baked goods are what Cakes for Occasions produces. It is crucial that these products taste good. Taste can be broken down into different key contributing factors: texture, flavor, freshness, and ingredients. All four of these characteristics must be consistently present in the final product. Appearance is another attribute the target customers are seeking.

In regards to the service component Cakes for Occasions offers, it is critically important that the staff is both friendly and knowledgeable. They must be willing to spend time and effort on each individual customer. Also, in terms of the supporting facility, the store must be kept clean and have a well-maintained interior and exterior appearance.

Benefits derived:

The benefits the consumer will receive from having a cake that consistently tastes and looks good are pride and satisfaction. When the customer is pleased by the quality of the cake, he
or she is eager to share it with others. Another benefit is that customers do not need to be concerned about allergies knowing that special attention was paid to the ingredients.

If the store and employees create a pleasant atmosphere, the customer will feel comfortable recommending it to their friends and family. When they refer others to the store, they gain the satisfaction of sharing useful information on where to find a quality product. The more referrals, the more the store’s reputation grows. This is important to the customer because they benefit from a sense of comfort and knowing that others enjoy the quality of the cakes and overall enterprise as well.

**Fulfilling customer values:**

All research conducted points strongly toward the idea that taste is more important than appearance or customization. In Section 4.3, it was identified that all the factors contributing to taste were ranked highest in importance, followed closely by appearance. It is for this reason that they became key attributes for Cakes for Occasions.

Again, most of the service attributes deemed as being crucial correspond with Table 4.3.6; store cleanliness, friendly staff, and referrals were very high customer values. Focusing attention on customers individually was added because even for those customers not wishing to explicitly have a customized cake, they still want to be treated as an individual.

**Value Proposition:**

The value proposition we suggest posing to customers relates to the cakes being extremely delicious. These products are made and sold by people that truly care about what they are doing. In order to grab the customer’s attention, however, we need to market the appearance. The tag line summing this up is “Let our special cakes be a part of your special occasions”.

**5.4 Location Recommendations**

According to the data in Tables 4.3.8 and 4.3.9, customers are willing to travel up to 20 minutes for various baked goods whereas they are willing to drive more than 45 minutes for wedding cakes, which is the longest for any category. Realizing these drive times, Maps 5.4.1 through 5.4.6 display all the target consumers within I-495 based on the segmentation strategies listed in Section 5.2: households with married couples and children and women ages 35-54. From this information, two areas stand out as potential locations: Natick and Marshfield, MA.
Natick is an ideal location to open up because of its proximity to Boston and other wealthy towns nearby. Within a 20 minute driving zone from Natick, one can reach Wayland, Newton, Wellesley, Needham, Dover, and Weston, among others. These towns have high household median incomes, suggesting that this target group is more willing to travel and purchase more expensive baked goods. In addition, there are almost 20,000 married household families with children within the 20 minute zone and the median age range is from 30-45. These people are potential buyers for custom decorated cakes, case cakes, wedding cakes, and other baked goods. Within 45 minutes, a potential Natick location reaches as far north as Andover and Danvers, west to Worcester, down south in proximity to Attleboro and Providence, RI, and farther east closer to the South Shore. Cakes for Occasions’ reputation for quality can help entice the target consumers living 45 minutes from Natick to drive and purchase wedding cakes and other baked goods.

Marshfield is another possible location for the new store because it is in the middle of South Shore and is within driving distance to the Cape and Boston. The South Shore presents opportunities for growth because of the income level, median age, and the number of household families with children. Within 20 minutes of Marshfield, the driving distance covers cities from Scituate, Hanover, and Duxbury, to name a few. The median age for women in those areas are between 35-45. This presents a great opportunity because, as stated in section 4.2, women in that age range purchase the most baked goods. Furthermore, there are approximately 10,000 married household families with children within the 20 minute driving zone. Cakes for Occasions can benefit from increased sales in custom cakes or case cakes for birthdays. Within 45 minutes of Marshfield contains Boston, Cambridge, Plymouth, Medford, and the tip of the Cape. This additional population of household families and women open opportunities for Cakes for Occasions to attract a young, wealthy market, especially having them travel 45 minutes to purchase a wedding cake.

For this location, we project there will be a total of 466,948 potential buyers within our target location who purchase baked goods in year 1. Please see Finance Template 5.7b section A for the breakdown in numbers per product. This number was calculated by looking at the total number of family households within the 20 and 45 minute driving zone as well as household income. We had to reduce the total number of wedding cakes buyers to consider how many people actually intend to get married. Furthermore, we suggest a 0.4% increase in the number of
people per year. This number is based on the historical population increase/decrease in Massachusetts over the last ten years.

5.5 Promotion Strategy

In order to communicate with Cakes for Occasions’ target market of two-parent families, we suggest they utilize the following communication disciplines: advertising, sales promotions, and public relations. Strategic use of these methods will help attract their target consumers to their new store. For the costs of each communication method and sales forecast, please refer to Finance Template 5.7b.

Objectives:

The communication objectives for Cakes for Occasions’ new store are to raise awareness, establish loyal customers, and strengthen the brand name. Each is important within the first year but is subject to change once the store moves past the introduction stage and has established themselves.

In the first year, one objective for Cakes for Occasions will be to spread awareness of the new location. Letting people know Cakes for Occasions has moved into the area and attracting customers’ attention is key to the success of the new location. After the first year, Cakes for Occasions should be established in the area and the objective will shift from raising awareness to maintaining customer interest.

Another communication objective within the first year is to build Cakes for Occasions a positive reputation through consistent, high-quality service. This is crucial within the first year because a positive experience will help bring repeat business. If customers are satisfied with the service and product, they are more likely to come back and share their experience with their friends.

Theme:

Appearance of products and store are important to attract customers to the new location. According to the survey, word of mouth is the primary source of information, which is out of the marketers’ control. Information and opinions about taste are mainly spread through word of mouth, but appearance can be advertised. Therefore, our theme will focus on the appearance of Cakes for Occasions as a whole.

Marketing programs:
Through advertising, the use of mass media informs potential customers about Cakes for Occasions’ available products and service. We recommend using a number of mediums: magazines, television, Internet, and newspapers.

For magazines, since one of Cakes for Occasions’ specialties is wedding cakes, promoting in wedding and bridal magazines, such as *Brides, Bridal Guide*, and *Modern Wedding Cakes and Chocolates*, is an a key opportunity to reach that target group. This would include professional pictures of wedding cakes, along with short descriptions and information about the bakery.

Television is another way for customers to visualize the products. Currently Fox25 morning news showcases Cakes for Occasions every other month in a “How to” segment. This existing publicity helps Cakes for Occasions attract new customers; we do not recommend stopping this or adding any additional television promotions.

In addition, the Internet has become one the most influential forms of mass media in the last decade. One way Cakes for Occasions can promote themselves is by placing advertisements on different websites and social network sites. Through these advertisements, Cakes for Occasions can monitor and evaluate the customers they are attracting. The promotional websites focus on food, wedding, and other special occasions, such as www.bostonchannel.com (under the community section), and www.phantomgourmet.com. The results of the click-through rate can provide valuable information to help improve future promotions.

In addition to advertising, sales promotions is another strategy to attract target customers to the new store. Initially when the new store opens, there will be a weeklong grand opening to target potential customers. Such promotions include free samples and discounts on products for the grand opening. This will draw in new customers and short-term sales. After the store has been established for at least one year, different promotions will be initiated to build and maintain customer loyalty. Cakes for Occasions will not focus heavily on sales discounts and coupons, but rather retaining regular customers.

Public relations (PR) will account for a small amount of our promotion plan. Seeing as our strategy already includes both advertising and sales promotion, our costs are already expected to be substantial. Therefore, we will use PR as a more cost-effective way to provide coverage of and raise awareness for the new Cakes for Occasions store. As the most prevalent newspaper in the area, the MetroWest Daily News will serve as a direct means of communication.
between the media and potential consumers. Featured articles reporting news about the grand opening of the new store will be the primary means of PR. Moreover, any breaking news throughout the establishment of the store will be communicated through PR, as a quick and easy way to distribute important information.

5.6 Sales Forecast

Please refer to Finance Template 5.7b for the complete data. Our new numbers relate to the current figures at the Danvers location and reflect the opportunities that Natick provides. The sales numbers show the average sales at the current location and consider the growth opportunities from being located in an area surrounded by affluent households. Based on the information in section 5.4, Natick provides an ideal location where there are more potential customers due to the high number of households with children. In addition, Cakes for Occasions’ reputation also justifies the amounts for total sales and purchasers of their baked goods.

One issue with making the estimates is not overestimating revenues. Multiple modifications were made to ensure that the projected sales accurately and realistically reflect Cakes for Occasions’ outlook. We have considered all the factors that force sales to decrease, including being a new location, having hesitation, and recognizing the current economic situation. As a result, our sales numbers may not be as high as expected but instead accurately represent Cakes for Occasions’ potential success.

This sales forecast shows that a new location in Natick will have similar results to the current location in Danvers. In addition, Cakes for Occasions’ new location will have a greater reach to new customers. We anticipate that the new promotion strategy, as mentioned in Section 5.5, will have a positive impact on sales. However, we realize that these numbers are subject to change and are currently unpredictable due to the economic crisis. Based on how Cakes for Occasions generated revenues in Danvers, we feel that our suggested plan for marketing will be effective in generating sales and thus be able to withstand the economy.
6.0 Operations Management

6.1 Operations Management Summary

There are multiple parallels between the final Operations Management and Marketing Plan. Our location was chosen based upon the previously mentioned target markets: married couples with children and women ages 30-45. Our service strategy depends upon the degree of customer interaction. When the customer is calling in to order a basic case cake, there is low involvement. When the customer travels to the retail store with interest in customizing a personal cake, involvement is high. Furthermore, both plans stress the decision to spend more on higher quality ingredients, based on marketing research of customer expectations. This decision was made mindful of the returns associated with the extra cost for quality.

In additional efforts to meet and exceed customer expectations, both plans involve two methods of distribution: in-store pickup and delivery. An important point is Cakes for Occasions’ expectation to accommodate demand during the busy wedding seasons. Also, they will be able to continue their partnering relationships. Public relations will be prevalent, however it will remain in-house. On the other hand, payroll will continue to be outsourced in both plans.

6.2 Service Strategy

The degree of interaction that the employees have with the customers varies on the position of the employee. Wedding consultants have a high degree of customer interaction because they work one-on-one with the client. These consultants meet with the client to understand their wants and needs. The counter staff has a moderate degree of interaction with the customers because they interact with the customers that come to the store to buy case cakes and place orders. The bakers and pastry chefs have the least amount of customer interaction because they are in the kitchen baking and decorating. Rather than meeting the customer, they often only see the order.

Cakes for Occasions’ service is mostly tangible but can be intangible as well. The store provides a good and service; about 70% products and 30% service. People receive tangible goods, such as cakes, and appreciate the intangible aspects, such as the facilitating service. The nature of the service delivery for Cakes for Occasions is non continuous with no formal
relationships. They only act upon orders and replenish the case when needed. There are also no formal relationships with individual customers, but there are some contractual connections with wholesale vendors. There is a wide fluctuation of demand over time, such as during the wedding season. Peak demand often challenges their capacity but rarely exceeds it. They follow through on orders placed during this peak period regardless of how busy they are but have turned people away in the past.

The level of customization varies by product. The service offered is consistent, but based on customers’ requests, the resulting product is often distinctly customized. Wedding cakes and special order cakes have a high level of customization because buyers can specialize their cakes. Case cakes have a low level of customization because the cakes are standard and ready to buy. Because the cakes are customized, decorators and bakers are able to exercise a high level of judgment. Even though the client designs their cake, they provide artistic and aesthetic judgment. The counter staff provides little judgment other than recommending a product.

6.3 Personnel

6.3.1 Personnel Policies

Currently, Cakes for Occasions uses culinary schools, interns, and word of mouth for employee recruitment. Since this process has proven to be effective, as they have a very low turnover rate at about four employees per year, we see no need for drastic change. We also suggest searching for employees through online job search websites. This method is not necessary to use year round, so we suggest purchasing one 60 day posting on three different recruiting sites per year to recover vacant positions. These postings run about $400 for one 60 day posting. When looking for the appropriate employees, Cakes for Occasions currently seeks out those who are “creative, honest, have the ability to multitask, and have great customer service skills”. These people are asked to provide a portfolio and to decorate a cake. Once hired, employees will participate in a training or shadowing period for up to three months, depending on the position. The trainee receives normal wages during this period. This hiring process should continue because it directly correlates with the value of employing skilled workers. Cakes for Occasions strives to produce products that are attractive to the eye, and if an employee cannot do this then they should not be hired. Cakes for Occasions does not currently have a formal evaluation process, though employee feedback is extremely important. We
suggest a quarterly or semi-annual evaluation process be created for employees. If employees do not have positive evaluations, then their employee status will be reviewed. Employees will be financially rewarded after three years of demonstrating their skills, work ethic, attitude, and ability to work with customers and co-workers. The costs associated with personnel policies are those involving recruiting. For Cakes for Occasions to search for employees, one 60 day post is purchased through three different recruiting sites at about $400 each and $1200 is the resulting annual cost for years 1 through 5.

6.3.2 Human Resources

Please refer to Table 6.3.2, which lists the executives, support personnel, and production staff needed to run the facility. Table 6.3.2 describes the required responsibilities for each position as well as the various salaries, hours worked per week, training periods, benefits, and the number of each position needed to maintain a high quality business. Many of the positions and the characteristics involved with each are very similar to the positions held at the Danvers location. Monthly costs during year one will be $35,777. Please see Exhibit 6.1.2 for the total yearly HR costs for years 1 through 5.

6.4 Company Facilities & Equipment

6.4.1 Facility, Location, & Size

The new Cakes for Occasions facility must be approximately 2,000-2,200 square feet, making it slightly smaller than its sister store primarily due to the fact that it is new and will not be able to initially meet or exceed sales as the Danvers location. The new location will be in Natick, MA on Route 9, near the Wellesley town line. This location allows customers to get off and on Route 9, the Mass Pike, and I-95 and get to the store in a matter of a few minutes from these major roads. Because Natick is surrounded by many large, wealthy towns, the new Cakes for Occasions will benefit from being nearby but will not have to pay their high tax and rent rates. The facility must have its own parking lot for customer convenience, as well as an attractive storefront to show off the cakes and appeal to customers. The extremely convenient location will provide Cakes for Occasions with a competitive advantage. Facility monthly costs will generally consist of rent, payroll, utilities and other costs. For year 1, there will be a total average expected facility cost of around $100,000. The average monthly cost of renting a facility in Natick for year 1 is approximately $4,500. This will stay constant for five years, calling for an annual cost
of $55,000 because Cakes for Occasions will enter into a long term rent contract. The Common Area Maintenance (CAM), which includes services such as trash removal and snow removal, as well as taxes, will be part of the long-term contract. Together, each will call for $366 per month for year 1, requiring an annual cost of $4,400 and close to $5,000 by year five\textsuperscript{35}. Internet access and Credit Card terminal fees will be the same in Natick as in Danvers. Internet costs will require a constant $75 per month for the first year, and Credit Card terminal fees consistently about $1,200\textsuperscript{35}. Over the first five years, the annual costs will remain constant at $900 and $14,500, respectively. Refer to Exhibit 6.1.1 and 6.1.2 for more detail on both monthly and annual facility costs for the first five years.

6.4.2 Equipment

The new location will require a variety of equipment in order to run and provide consistent operations parallel to the Danvers location\textsuperscript{27}. Necessary equipment will include ovens, freezers, mixers, furniture, computer equipment, and a new delivery vehicle. Together, this equipment yields a total expense of $118,335 for year 1. The initial cost of leasing a new delivery vehicle will be $6,051 with a monthly cost of $254 during year 1\textsuperscript{1}. For years 2 through 5, the annual cost of that lease will be $3,048, but we will also be purchasing a new $25,000 van in year 3. The combination of new furniture, ovens, freezers, cake mixers, etc will yield a direct initial cost of $108,010, with $500 of annual maintenance. The purchase of ovens, freezers, etc is essential for Natick to provide the same consistent, quality service as in Danvers. Because sales are expected to increase, we will increase the quantity of aforementioned pieces of equipment in year 3. The last equipment expense will require $1,230 to cover computers, printers, a fax machine, and copier. These won’t all call for any monthly or annual expenses until year 5 when it will be in Cakes for Occasions’ best interest to re-buy this equipment as technology advances. For more information or to view all of the annual and monthly equipment expenses refer to Exhibit 6.1.1 and 6.1.2.

6.5 Process Flow

Firms depend on efficient and effective processes. Because Cakes for Occasions provides a product and service, there are two processes. Please refer to Exhibits 6.5.1 and 6.5.2. Exhibit 6.5.1 identifies important steps for the product, and Exhibit 6.5.2 depicts the process for the service.
6.6 Quality

The quality of goods and services must be managed in different ways due to the difference in the dimensions on which they are evaluated and how they should be improved. The tangible products delivered by Cakes for Occasions, cakes and other baked goods, are evaluated based on taste, freshness, and conformance; it must stand to taste at or above customers’ expectations. To accomplish this, Cakes for Occasions must incur preventative costs from using the correct ingredients and a standardized procedure. The specific internal costs would be spending marginally more on high quality ingredients and developing a standardized recipe. Because both of these measures are in place, there are no additional preventative costs for the quality of the cake. Regarding detection, it is a good policy to sample scrap from the same batch. This ensures a quality product is being delivered to the customer, and they will not risk the failure cost of customers being dissatisfied with the taste of the cake.

The customization of the cakes is a blend of a good and service. For that reason, the quality is evaluated based on dimensions of both: reliability, consistency, understanding of customers’ needs, competence, and aesthetics. The best way to manage these aspects is through the preventative measures of training and use of proper equipment. The training can be provided at a low cost through internal workshops: the first Monday of the month will be workshop-based, where decorators focus on teaching each other. There is no outside cost incurred; the only potential cost is due to slightly decreased productivity that morning. Employees will be so relieved to have a stress-free Monday morning that afternoon productivity should compensate. If there ends up being a decrease in productivity, it is justified by the fact that the decorators stay brushed up on skills they haven’t done in a while, such as flowers. By everyone sharing their knowledge, there is a decrease in specialization and more well-rounded decorators, both of which are keys for long-term success.

The service-side of operations is dependent on the responsiveness, communication, and courtesy of employees. Quality will increase through training and clarity of expectations. A manager on staff at all times can observe how customers are treated, can address issues immediately, or just be available to answer questions. This is both a preventative and detective cost and is important because dissatisfied customers will not be loyal. The costs of this program would be minimal. The cost of making a front-desk handbook would not cost anything if
employees work on it during off-peak hours. Also, the slight allocation of the manager’s salary is not a marginal expense because this person would be receiving a paycheck already for doing this, even if it were not explicitly stated as a responsibility.

6.7 Matching Capacity with Demand

The season for custom cakes is May through November, which can be accounted by Graduation, wedding season, back to school, and Halloween. Outside of this range, there are higher sales around Easter and Christmas. This can be seen in Graph 6.7.1. The wedding season can be considered May through November, as those months account for the highest sales in wedding cakes and are shown in Graph 6.7.2.

The maximum number of cakes produced in one week can be 30 wedding cakes, 160 custom orders, and 90 case cakes, or 15 wedding cakes, 250 custom cakes, and 130 case cakes. Although maximum capacity is not set in stone, Cakes for Occasion very often produces well over their capacity.

Although wedding cakes take significantly more time and effort to make, they make a higher profit margin, so as a rule of thumb, Cakes for Occasions should always accept wedding orders as a first come first served basis on custom orders until maximum capacity is reached. In 2008, wedding cake orders never exceeded maximum capacity, 30, so there is not an issue with demand exceeding capacity, although often, custom orders have far exceeded capacity.

6.8 Office Expenses

A company has to deal with a multitude of office expenses, from supplies and marketing materials to information systems software. Supplies expenses deal with simple things such as pens, pencils, staplers, binders, folders, printer ink, etc. These supplies are essential for the daily functions in the office and for organizing records. The expected monthly office supply expenses for year 1 are approximately $800. This includes ink for cake prints, paper, writing utensils, organizational materials, hole punchers, advertising materials, and business cards. Marketing materials include publishing brochures and making business cards. These materials help the company promote themselves and help support the marketing plan. All things considered, marketing materials will call for $350 monthly for the first 3 months because of the grand opening and then drop down to $150 for the months surrounding the wedding season because
additional demand does not need to be solicited. Then, in November and December, costs will increase again. Currently, Cakes for Occasions does not have a ERP system, CRM software, or electronic ordering system at their Danvers location. Instead, they use Microsoft Excel spreadsheets to conduct business. We suggest a built-in software such as Adobe InDesign to help create their flyers. Software costs will require an initial $1,000 in month 1 and then an annual $250 thereafter for licensing fees. For another look at office expenses, please refer to Exhibits 6.1.1 and 6.1.2.

6.9 Supply Chain Management

6.9.1 Supply Chain

Members of Cakes for Occasions’ supply chain include the supplier of boxes and the suppliers of ingredients. These ingredient suppliers provide raw materials such as sugar, milk, eggs, flour, fruit, and chocolate. These supplies are delivered to the Danvers location to create the batter. Danvers location serves as a supplier of batter for the new store in Natick, where the transformation process occurs. Another part of the supply chain is wholesalers, who serve as intermediaries between Cakes for Occasions and customers.

6.9.2 Partnering

Currently, Cakes for Occasions partners with firms for payroll, public relations, and business consulting. For the new store, they will continue to contract services for payroll and business consultation. However, they will conduct their own public relations when needed.

Payroll costs $64 a week and will continue at that price throughout the year. The annual costs for payroll are $3,328. Business coaching is $1700 per month and $20,400 for the first year. After overseeing the first year in the new location, there isn’t really much need to constantly check-in but because this is potentially the first of many locations, it would be useful to maintain a relationship with this consultant. For this reason we recommend meeting once per quarter when no expansion or growth is being planned or in process.

6.9.3 Distribution

There are two different decisions associated with the purchase of a cake from Cakes for Occasions. First, the customer has the option of purchasing either a case cake or a custom cake. After determining which cake to buy, the customer must then decide how they will receive it. Choices include either picking up the cake or having it delivered. For Cakes for Occasions, there
are no costs related to customers picking up a cake. Distribution through delivery, however, involves multiple expenses. The established Danvers location relies upon a delivery van for their distribution. Considering the commute and travel time between Danvers and the new location in Natick, it is financially logical to incur the expense of a separate delivery car for Natick’s orders. Given transportation costs and rising gas prices, it would make more sense in the end to purchase a new car. Assuming that gas prices will increase 20 cents per year, the annual cost of $3,339 for year 1 will increase to nearly $4,350 by year 5. Please refer to Exhibits 6.1.1 and 6.1.2 for further information.
7.0 Financial Analysis

7.1 Discussion of Key Financial Assumptions

To determine the number of people in the geographic area, for the sales projection, the market was split into those buying wedding cakes and other goods. For wedding cakes, we took the total number of single people inside a 45 minute range of Natick, and reduced the number to reflect only one person per couple and the quantity we figured would get married. For all other goods, we took the total population of adults and within a smaller 20 minute range. The population increased based on the average increase in the area’s population. Regarding those reached, we figured more wedding cake buyers would be made aware because we had magazines specifically targeted towards them. The number of people reached for all categories dropped by 3% after the first year because of the discontinuance of radio publicity. To determine the percent of people that will buy and the number of times they will buy per year, we used data from the survey.

The increase in SG&A and other expenses was generally based on the rate of inflation. In the U.S., inflation typically increases at a rate of 3% per year. This is true for CAM, the Common Area Maintenance. Other expenses did not grow at this rate because the specific industry increases at a slightly differently average over the years. An example of this is electricity; to get these figures, we researched historical cost increases. Utilities were put on payment plan because there is no way of knowing exactly how much different the costs are from month to month. By locking into a contract, prices will change from year to year but monthly expenses will stay smooth to help Cakes for Occasions budget their cash. For specific SG&A costs per month or year, reference the Operations Management sections.

The salaries increase by a 3% cost of living adjustment each year. The exception to this is that in the third year, all employees are eligible for a 5% for raise. Also, please note that on the key assumptions page, the wages generated for hourly employees are on a monthly basis.

The vehicle we chose to use is a leased 2008 Chrysler Town & Country van. The total cost is $16,487 so we chose to lease it with 20% down ($3,297) and pay the standard lease cost per month\(^1\). The remainder of the first month’s cost is the charge for modification. We plan to modify Cakes for Occasions’ current Danvers van to incorporate a freezer for the batter transportation. The reason for this is that the lease is less expensive than a loan but you cannot
modify a leased car; this one is for deliveries only. We will purchase another van, valued at $25,000 in year 3.

The advertising and promotion costs are based on the promotion strategy given in the marketing section. The associated costs covered in Operations went down once we stopped heavy advertising in the first year to alert customers of the grand opening.

Raw materials expense was based on the Cost of Goods Sold figure. The total that was determined in the first year was allocated to the months based on the percentage of total cakes that were made in that month. The raw materials are directly related to the quantity of cakes produced so the related monthly expense is proportional to the total.

Please reference the Operations Management section for the costs of the office supplies, equipment, and other variable equipment.

7.2 Financial Statement Analysis

The pro forma financial statements projected by the group are quite promising for Cakes for Occasions’ investors. First of all, sales nearly doubled from year one to five, an obvious positive indicator. Secondly, the income statement shows that in year 1 there will be a positive net income of $82,333. The net income will increase over the next four years by $185,850, $20,740, $96,168, $64,750. The huge jump from year 1 to year 2 is due to the fact that all initial start up costs will be accounted for in year 1. The best way to analyze the remainder of the financial statements is through ratios.

One useful ratio is the total asset turnover ratio. Using the pro forma financial statements the total asset turnover ratio increases from 3.6x in year one, to 5.7x in year three and finally to 7.6x in year five. This gradual increase in asset turnover is encouraging; the new location will produce more revenue with the assets they own. This means that Cakes for Occasions is using its assets more efficiently.

Another useful ratio is the profit margin. The profit margin is 8.27% in year one and increases consistently to 19.35% in year three and 23.91% in year five. This continual increase shows potential investors that as the new store becomes more mature, it will begin to earn more profit on each dollar of sales. This also shows that the Natick store will gradually gain more control over its costs as the years go by. The consistently increasing profit margin can be attributed to the fact that promotional costs and other costs to get the store started will shrink
dramatically after the grand opening and a few years of operations. Assuming no further expansion or large equipment purchases take place for the Natick store, the year 5 profit margin is indicative of what we can expect for the future profit margin. The start-up costs will be paid off and the store will reach an equilibrium for its long operating cycle.

Net working capital in year 1 is $120,590.53. After this it increases to $156,139.54 and levels out in year 5 at $153,901.60. With the dramatic increase in net working capital, the new Natick store will have more financial flexibility. If need be, they have the potential to buy new equipment, or even expand their store as the years go by. The increase in net working capital goes up by so much from year 1 to year 3 because of the initial start up costs being so high and capital being tied up in it.

All in all, the new Natick location shows promising returns. It shows increasing sales, as well as profit. Furthermore, the company begins to gain more control over its finances, earn more profit per dollar of sale, as well as have more financial flexibility as the years go by. Although the quantitative analysis of the new Natick Cakes for Occasions obviously points to the positive, there are also some negative qualitative factors that cause the new store to be riskier than it may appear. First of all, new stores in the food industry often go under in their first few years due to intense competition. The best way to avoid bankruptcy is through strong sales promoted by word of mouth. Positive word of mouth is difficult to control but the Natick location will have the advantage of being the second Cakes for Occasions store and the first has a very good reputation.

7.3 Ultimate Decision

The majority of our opinion on the viability of this project comes down to the timing. Going forward with this project immediately has its pros and cons based on the country’s (and specific geographical location’s) economic situation. Customers’ disposable income is currently low but at the same time, the real estate market is weak. It is an ideal time to enter into a contract to secure a low, fixed rent.

The NPV tools help decide if a project adds value to the firm. The net present value (NPV) indicates the present value of future cash flows minus the initial investment, discounted at the cost of capital. Our project has a positive NPV, thus positive value is added to the firm and the project should be accepted. In addition, another tool is the internal rate of return (IRR); the discount rate where the present value of cash flows equals the initial investment. This project
provides a favorable situation because the IRR is greater than the cost of capital. Furthermore, the profitability index uses the time value of money to determine the benefit per dollar of cost. This project has a favorable index because it is greater than 1.0.

One aspect that may skew our financial projections is the use of the MACRS method of accelerated depreciation. Depreciation expense is much higher in the first few years because assets are more useful. This is a good way of demonstrating the realizable value of the assets but straight-line depreciation would be more consistent for planning purposes. Depreciation is a non-cash expense so it shows up on both the income statement and balance sheet but does not show up on the cash budgets.

This concept of depreciation is important because the liquidity and lasting value of the assets plays heavily into the decision of whether to make the investment or not. The equipment, such as ovens, freezers, and mixers are fixed assets which means they are not very liquid but they will maintain their value. If the new business venture for expansion does not work out in the long run, the assets have a high chance of being able to be sold on the market. The investment is therefore less risky knowing that some of the expenses can be recovered, if not through sales, through the secondary market.
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24. Discussion Board. “Danvers Location Size.”

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26. Discussion Board. “Employee Turnover Rate.”

27. Discussion Board. “Equipment Questions.”

29. Discussion Board. “Human Resources.”


31. Discussion Board. “Office Supplies.”

32. Discussion Board. “Partnering.”

33. Discussion Board. “Personnel policies.”

34. Discussion Board. “Production Capacity.”

35. Discussion Board. “Utilities expense.”


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Appendix:

Graph 4.1.1:

Industry Revenues in $Million for U.S. Candy, Bakery, And Other Food Stores

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Graph 4.1.2:

Industry Revenues in $Millions for the U.S. Bread Production

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