

A Baker's Decision¹

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This case is based on an actual company and situation and is intended to be used in both junior and senior level marketing courses involving marketing strategy and/or marketing planning. The case provides the students with the opportunity to use technology skills to develop an action plan for the business. The classroom discussion should focus on the market opportunities for the business within a specific business environment. Promotional plan development for specific target markets and product development for specific product opportunities should be the main points covered in the discussion.

INTRODUCTION

Brian was very impressed with the continuing success of Linda's Bakery, his family's business. While other companies in the city of West Salem, Wisconsin had struggled during the past year, Brian's numbers were on a steady increase. His sales were up over last quarter and his sales were up over last year (10% and 14% respectively). Brian, however, didn't want to be over confident because of the volatility of his industry. An example of that volatility was the recent low carb diet fad which swept the country including West Salem and created problems for such giants as Dunkin' Donuts and Krispy Kreme. Brian wanted to make sure that the company would continue to be successful.

Linda's Bakery was known as the "Most Awarded Bakery in Wisconsin" as a result of the numerous baking awards it had received in the statewide competitions in Wisconsin and Minnesota. In the fall of 2002, Linda's Bakery won six Best of Show awards at two Wisconsin Bakers Association competitions. And, at the most recent Retail Bakers Association Competition in Chicago, Illinois, Linda's won recognition for their wedding cakes, rolled fondant, and sculpted cake. Brian wanted to make sure both financial and competitive success continued. Therefore, Brian had a few decisions to make. First, what should be the next group to target and, second, how should he reach that market? Where should he go from here?

¹ The author of this case thanks Brian Anderson (a former student and friend) for his cooperation and permission to use his business as the focus of this case. This case was written for the purpose of generating class discussion rather than to illustrate either effective or ineffective handling of the business. As a courtesy to Brian and his business, please do not contact him directly.

BRIAN'S CREDENTIALS

Brian has been around the bakery all of his life. His mother, Linda, is the namesake of the business. During his time at the University of Wisconsin-La Crosse, Brian would go in early in the morning and start the baking for the day, and then go to classes. He would then return in the evening to help close up the store. Brian completed his BS in Business at UW-La Crosse in 1995. He then left to attend one of the top baker's colleges in the nation. He graduated from that program with honors. Then, he returned to assist his family in the business. Both degrees have equipped Brian with the necessary tools to successfully operate the family business.

HISTORY OF LINDA'S BAKERY

Linda's Bakery has been an icon in the community since 1926 when it was located in downtown West Salem. Brian's mother and her first husband purchased the bakery, then called Salem Bakery, in 1973 and had six employees. When Linda divorced in 1974 she received the bakery in lieu of alimony. She later partnered with her brother Marc (1980) and they became co-owners of the business. In 1996, Linda turned most of the management responsibilities over to her son Brian.

The bakery was relocated out of the downtown area to a facility on Highway 16. This was a very strategic move for two reasons. First, it placed the store on a main traffic artery for the community. Second, that new location was also in front of Lakeview Foods, one of the main local grocery stores. Linda's parents, Bob and Helen, operated the grocery store until 2000 when Bob passed away and the family closed the store. The competitive nature for grocery retail in the West Salem area had increased and the family decided it was no longer viable to compete in that market.

Linda's baked product seven days a week. They were a 'fresh baked' establishment which prided itself in using no preservatives. The bakery opened at 6:00 AM every morning and closed at 6:00 PM, with the exception of deer season² when the store opened at 5:00. Bakers normally arrived between 3:00 and 4:00 AM to start the baking process for the day.

² Deer season, specifically gun season, was a major event in this rural area of Wisconsin. The season lasted nine days each fall. Deer season was one of the most requested vacation times for many of the area employers. Some companies used lotteries to determine who to the time off. Schools and universities reported higher than normal absenteeism rates during this period. The shooting (hunting) day began at sun up and ended at sun down. Hunters would enter their hunting stand well before sunrise.

REGIONAL CHARACTERISTICS

Linda's Bakery is located on State Highway 16 that connects the city of La Crosse, Wisconsin to several of the rural communities. Based on the Wisconsin Department of Transportation figures between 3800 to 4300 vehicles pass the bakery every morning and between 4000 and 4600 vehicles pass the bakery every afternoon/evening. La Crosse, Wisconsin is the major retail center and employment center in the area. La Crosse has an extremely broad employer base that has turned the surrounding rural communities into 'bedroom' communities for the La Crosse business district. According to the 2000 Census, the La Crosse County workforce consisted of 7,474 workers coming from the area surrounding La Crosse County, including commuters from Minnesota. During the ten year period of 1990 to 2000, La Crosse county experienced a 71% increase in commuter workers and only a 22% increase in employment. Counties east of West Salem were a major contributor to the commuter work force (approximately 2,000 employees). These commuters traveled on either Highway 16 or I-90.

The employment base of La Crosse remained strong due to the diversity of its employers (see Table 1). Another major influence in the area was the University of Wisconsin-La Crosse. UWL employed over 750 employees and had a student body of over 5000. It is important to note that a majority of businesses in the La Crosse County area are small business and 81% of them employ between one and 19 persons. While the top ten employers in the area employ almost 25% of the employment base, the small business structure has allowed the area to survive during economic downturns that were, at times, devastating to the top employment group.

TABLE 1
EMPLOYER BASE

Employer:	Number of employees:
American Standard, Inc. (formerly known as Trane Manufacturing)	2500 plus
Medical Services (hospitals, clinics, and offices)	4400 plus
Gateway Foods	1085
La Crosse County	1032
School District of La Crosse	940
University of Wisconsin-La Crosse	750

COUNTIES OF LA CROSSE AND MONROE

In addition to the economic strength of the city of La Crosse, La Crosse County and Monroe County have maintained a strong economic environment. See Table 2 for specific economic information for these two counties. Geographically, the city of La Crosse is the major city within La Crosse County. Monroe County is east of La Crosse County and provided approximately 2000 workers to the City of La Crosse work force. A majority of these workers commuted into La Crosse either on Highway 16 or on I-90 and 76% commuted alone. Many of these commuters were going to La Crosse for higher paying positions and for management/professional (white collar) positions, which were not available in Monroe County.

TABLE 2
ECONOMIC CONDITIONS OF MONROE AND LA CROSSE COUNTIES

	La Crosse County	Monroe County	State of Wisconsin
Population Growth	2.3%	4.2%	4.4%
Unemployment Rate	4.2%	5.3%	5.0%
Per Capita Personal Income (Increase)	24.4%	21.5%	22.6%

COMPETITIVE PERSPECTIVE

The competition in this area for bakeries was strong but not saturated. In La Crosse there were three stand alone bakeries: Mr. D's, Brick-Oven, and Consumer bakeries. There were two additional bakeries in Onalaska. While each of these carried similar products, none of them had the location advantage of Linda's Bakery. Mr. D's and Consumer Bakery both provided limited delivery services to some businesses.

The more intense competition came from the various grocery stores in the La Crosse/ Onalaska areas. A list of stores that also had bakeries included Festival Foods, Woodman's, 12 Skogen's IGA stores and 8 Quillin's IGA Food stores. While all of these provided fresh baked goods, Skogen's and Quillin's stores had a centralized bakery. The baked goods were shipped from the central bakery for each of the stores on a daily basis.

Competition was expanding in West Salem for at least one of Linda's Bakery's current product lines: soups. A recent article in the local newspaper announced the opening of a Quiznos and a Coney Island (Coney Island is a local hot dog

restaurant chain). Both of these establishments were scheduled to open at the interstate interchange (approximately three miles from the bakery). The opening of these restaurants has also impacted Brian's contemplation of product expansion of the lunch menu.

PRODUCT OFFERING

Under the direction of Linda, Marc and Brian, the business had expanded its basic product line and its employee base (50 employees). Until 2000, the business had grown and survived offering the traditional bakery product line. Linda's offered sweet rolls, donuts, filled pastries, cookies, coffee cakes, nut breads, muffins, breads (20 different types), bagels, dinner rolls, bagettes, birthday cakes, special occasion cakes, and wedding cakes. Many of the recipes were family secrets and known only by Linda and Brian. In addition to the bakery line of items, Linda's also offered coffee, soft drinks, milk and a limited line of juices. With the exception of coffee, all of the drinks were served in individual cartons or bottles. Even though the bakery had a small eat-in area, a majority of the business was carryout. Approximately 15 percent of sales were classified as off-site. Off-site sales consisted of some of the wedding cake business and some business delivery of pastries for meetings and break rooms. Because of the competitive nature of the La Crosse market, Brian had not made a large commitment to delivery of products. Also, off-site public sales regulations were too prohibitive to consider at this point.³

The bakery had never installed a cash register system that allowed the tracking of specific SKU's; however, Brian had a general concept of which products originated his sales. Nine percent of his sales were wedding cakes while twenty-percent were from specialty, birthday and other special occasion cakes. The majority (70 percent) of his sales were through the traditional baked goods and about one percent originated in the beverage line.

Recently the business had expanded its product line at the request of customers. When the Lakeview Foods grocery store closed, the local market also lost a very popular deli which was located in the store. After much consideration, Linda's started carrying a small line of soups (both hot and chilled). The soup line had been accepted with open arms and Linda's had experienced a substantial increase of lunchtime traffic. The next consideration in this line of goods would be the introduction of sandwiches. However, the sandwich market was relatively competitive in West Salem with a majority of the competition on the other side of town,

³ State regulations required that each product sold off sight must have an ingredient label including the nutrition breakdown. The estimated cost for completing this task was \$150 to \$200 per item. At the current time, this was too cost prohibitive for the bakery to consider off-site sales.

closer to the interstate.

SPECIALTY PRODUCT LINES

A Barkery within the Bakery. Following a trend that had captured the interest of many small businesses and pet owners, Linda's Bakery opened a small Barkery and offered Cody's Gourmet cookies, bones and treats for dogs. These gourmet specialty treat establishments referred to by some in the industry as a Barkery capitalized on several growing trends in the United States.

The APPMA (American Pet Products Manufacturers Association, Inc.) identified the gourmet line of dog food and treat items as an area of potentially strong growth. As people humanized their pets, including a focus on healthy eating, people were seeking new sources of food and treats for their pets. A recent A.C. Nielson report, found by Brian, reported grocery stores were experiencing an 11% decrease in pet food sales. At the same time, the pet food industry was experiencing a 3.5%+ growth rate. In 2005 the pet industry experienced sales of \$36.3 billion and a projected growth of 5.7% in 2006.

In his search for information, Brian found several on-line start-up companies focusing on the sales of gourmet dog treats. While finding industry/product specific numbers and statistics was a challenge for Brian, he unearthed some encouraging information including the following:

- Dog ownership was on the increase in the U.S. (5% growth)
- Average annual expenditure for dog treats was \$68 per dog
- Pet industry appeared to be recession proof
- Major players reported double digit growth
- People, especially empty nesters, were pampering their pets with holiday and birthday gifts and specialty parties.

Brian coupled this information with the requests of a few of his customers and launched the new product line.

One of the fears associated with the introduction of the Barkery and the Cody's line was the potential impact on the image of the bakery. While several customers inquired about the new product line, Brian saw no decrease in sales or loss of his regular customers. In fact just the opposite was experienced. With the addition of the Barkery, Linda's captured more sales from its current customer base. And, through word-of-mouth communication Linda's also enticed non-customers of the bakery into the establishment because of the Barkery.

Health Based Products. Linda's produced a line of baked goods which were

gluten free. Individuals who suffered with celiac disease⁴ have to eat gluten free products only and those products were a challenge to find. Linda's started producing those products because of a customer request. While grocery chains and commercial bakeries are starting to carry some gluten free products, Linda's appears, at least on a temporary basis, to have a first mover advantage in its market.

CURRENT CUSTOMER BASE

Linda's Bakery's customer base consisted of three groups: commuter customer, West Salem resident, and the specialty group customers. While the West Salem customer group was significant it was not sufficient enough to support the bakery. The majority of Linda's customers were the commuter customer. These were individuals who were going to La Crosse from points east of West Salem and passed the bakery during their trip. The specialty customer group consisted of two product lines: cakes and the gluten free products. During peak graduation and wedding season Linda's would sell 500 cakes per weekend. The Bakery, if promoted correctly, could develop a third specialty customer group.

Very few people drove out from La Crosse to West Salem for the specific objective of purchasing product at Linda's. A few people did travel to West Salem for other purposes: car dealership visits, professional office visits, church, etc. When these individuals were in West Salem they would frequently stop in at Linda's and pick up an item or two. Brian knew he had about 50 to 75 people who specifically drove to West Salem from La Crosse for the sole purpose of purchasing items at the bakery. When those customers came to the store, they would buy a larger quantity of product than the normal shopper or they would be seeking out one of the specialty product lines.

PROMOTIONS

Brian had always advocated a very traditional promotional campaign for the business. For years, Linda's had implemented a coffee club. Members of the coffee club began by purchasing a coffee mug for \$4.95. Then, when the Club member purchased a donut or other pastry they received a free cup of coffee in their mug. Brian has also offered the traditional Baker's Dozen program. In this program if you purchase a dozen of any individual items (with the exception of the cake line of products), your thirteenth item is free and can be redeemed at

⁴ Approximately 3 million Americans suffered from this disease at the writing of this case. Celiac Disease is an autoimmune disorder characterized by the intolerance to gluten, a protein found in wheat, rye and barley. This disorder results in the malabsorption of nutrients. The only known cure is the strict elimination of gluten.

the customer's convenience. Both of these programs were maintained through a cardpunch program.

In addition to these in-house promotions programs, Brian also placed signs in the windows in the front of his store or at the side of the road highlighting the special of the day or week. The storefront signs were hand written signs on white butcher paper. The signs were normally 3 feet wide and 4 to 6 feet long. Various colored markers were used trying to capture the attention of the commuter. The sign at the roadside was similar in design. Two pieces of plywood were hinged at the top and were set up to resemble a triangle. On both sides of the triangle butcher paper signs were attached. These signs normally promoted products different from the storefront signs. The roadside sign would also have much less information on it. An example would be: "1 Lb. Loaf, Raisin Bread, 99 cents". This has been an inexpensive and semi-successful program. Brian has noted that an item he placards at roadside normally experiences a 10 to 15 percent increase in sales.

Linda's Bakery has always been a large supporter of the local community. They have supported both school and recreational sports teams. Brian purchased advertisements in sports programs and those advertisements normally made some type of product offer or reminded the reader of one of the purchase programs. In terms of the community recreational sports, Brian traditionally sponsored one or two teams each year. The bakery's name would be listed on the uniform of the players.

In terms of traditional promotions, Linda's co-sponsored a breakfast club on the local country western radio station. Brian chose this station because the Arbitron ratings showed it was one of the most listened-to stations in the area. Every Friday the radio station (COW97) would draw a name from the birthdays and anniversaries announced for the week during The Morning Stampede. The winner would receive a free cake from the bakery.

Brian did not advertise in the local newspapers on a regular basis. He would help support advertisements related to special charities or events. When the city of West Salem was constructing a new bike shelter and kiosk on the La Crosse River Trail (West Salem was the mid point on the trail) Linda's Bakery provided goodies for those who participated in the dedication ceremony and ride. However, Linda's charity support went well beyond its local community. Dan (Linda's husband), a member of the Wisconsin Baker's Association Board, created the "Raisin Dough" program. In this program Linda's Bakery and several other Wisconsin Bakers gave free loaves of Raisin Bread to any person who would stop by a participating bakery and make a \$5.00 donation (or more) towards the Hurricane Katrina Relief Fund. In addition to the "Raisin Dough" project, Linda's joined forces with the La Crosse

Rotary Foundation and was a designated collection point for non-perishable items for the Katrina Relief efforts.

Brian did not use standard promotional platforms other than the Yellow Pages and an occasional advertisement in the local weekly shopper. History has shown that spending resources on traditional newspaper and television commercials were not providing the returns necessary.

Brian had not created a web page for his business. He had not decided if developing a web page would create a large enough customer draw. His business was not the type where he would be shipping product around the world so he didn't figure that a web page would be that beneficial.

To sum up his promotional approach, Brian always stated he used the greatest form of promotion of all—word-of-mouth. He described his success in this area as being a result of high quality products and extremely satisfied customers. However, Brian has also realized that word-of-mouth does not always capture the traffic passing in front of his business. Historical shopping patterns indicated that the people passing by his store would be more likely to stop and purchase his product before people would drive from La Crosse to West Salem for the specific reason of purchasing his baked goods.

THE DILEMMA

Brian knew he had to make plans now to continue the success. He knew he wanted to capture more of the commuter market. But he had not determined how to do this successfully. He knew what didn't work, television and newspaper ads. He also highly questioned the success of radio advertisements because of the wide range of radio stations people listened to in the area. Brian also wanted to increase the sales of the Bakery portion of his business. When doing this, however, he wanted to make sure that he didn't harm the reputation of his other products. Finally, his current customer base wanted him to include sandwiches in addition to the soups. The soups had been successful but would adding sandwiches create distractions from the bakery? Would this be a way he could sell more bread? Could he compete against the known sandwich shops in the community (and those entering the market)? Would being three miles across the community be far enough away from competition to allow him to capture a significant share of the sandwich market? Out of all of these possible options which should be a priority? Has he overlooked something in his expansion considerations? After contemplating these questions Brian realized he needs some type of a master plan for capturing more business.

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