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Entrepreneurship and Decision Making: Have Your Cake and Eat it Too

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Entrepreneurship and Decision Making: Have Your Cake and Eat It Too

Caked Up! is a small, local bakery in Oklahoma owned and operated by cake designer Lauran Fuller. Caked Up! serves cakes, cupcakes, house-made ice cream, coffee, and an assortment of baked goods including cake pops. In addition, they offer custom cake orders for weddings, birthdays, and other special occasions. Lauran grew up loving to bake, but desired to make treats look as good as they tasted. In 2007, she took her first cake decorating class and realized that she had a unique talent for cake decorating. Over the next few years, Lauran perfected her baking skills making birthday and wedding cakes for family and friends. During that time, she also married and started a family. As word of mouth stimulated demand for her custom cakes, she knew that she needed to find a way to open a storefront that allowed her the flexibility to still be with her three small children. In March of 2014, Lauran opened the Caked Up! retail storefront.



Bakery Shop Culture

The history of baking and the bakery store front goes back to the 1700's. The first mention of what we consider a cupcake today was for a "light cake to bake in small cups" in *American Cookery* by Amelia Simmons.¹ Today, with *Cupcake Wars*, *Magnolia House Bakery* and *2 Broke Girls*, bakeries and cupcakes are an appealing trend for entrepreneurs, start-ups and home-based businesses. According to the

¹ Food Timeline www.foodtimeline.org/foodcakes.html#cupcakes (accessed 9/26/2018)

2017 Small Business Development Center report, there are 6,700 retail bakeries with annual revenue of about \$3 billion.² The research market company IBISWorld reports that the bakery industry entered a growth stage in 2009 that went through 2014 with a growth rate of 7.2% per year. And also has a predicted growth rate of 5.9% in 2019.³

Niche markets, like bakeries and cupcakes, focus on small but specific and well-designed segments of the population. Bakeries can focus on unique and creative items and can appeal to a direct audience. The specialty concepts of bakeries include cupcakes, doughnuts, custom cakes, eclairs and pet treats.⁴ These items can be customized through creativity and personalization which appeals to the millennial generation which is now America's largest at over 75 million strong. And millennials love the "grab and go" option offered by bakeries. Anyone born between 1981 and 1996 is considered a Millennial.⁵



Bakery Shop Industry and Competition

Consumer preferences, the economy and demographics drive the demand for products. The IBISWorld market report published in March, 2018, describes a positive outlook for bakery cafes. They expect operators to focus on target markets with greater potential for growth and also on high-quality menu items and increased coffee consumption to raise revenue.⁶ Michelle Green started her own bakery

² Bakery Business 2017 <http://www.sbdnet.org/small-business-research-reports/bakery-business-2017> (accessed 9/27/2018)

³ Baker Cafes in the US: US Industry Market Research Report <https://www.ibisworld.com/industry-trends/specialized-market-research-reports/consumer-goods-services/food-service-drinking-places/bakery-cafes.html> (accessed 9/27/2018)

⁴ Hawkey, Camille Specialty Bakeries: The Rise of Sweet and Successful Niche Concepts <https://pregelamerica.com/pmag/articles/specialty-bakeries-the-rise-of-sweet-and-successful-niche-concepts/> (accessed 9/27/2018)

⁵ Dimock, Michael Defining generations: Where Millennials end and post-Millennials begin <http://www.pewresearch.org/fact-tank/2018/03/01/defining-generations-where-millennials-end-and-post-millennials-begin/> (accessed 9/27/2018)

⁶ Bakery Cafes in the US: US Industry Market Research Report <https://www.ibisworld.com/industry-trends/specialized-market-research-reports/consumer-goods-services/food-service-drinking-places/bakery-cafes.html> (accessed 9/27/2018)

in Australia and offers advice to “be the best, the first or the only one”. Other advice from bakers says to focus on what you do best.⁷

Due to the Home Bakery Act of 2013 which became effective November 1, 2013, there is considerable competition in the bakery industry from home bakers. The Act allows individuals to produce and sell, from their homes, certain types of baked goods but sales are limited to \$20,000 per year with no state license required. Effective November 1, 2017, The Home Bakery Act of 2013 as been amended with a few changes. Prior to November of 2013, all food sold to consumers in the state of Oklahoma was required to be manufactured in a facility inspected by the Oklahoma Department of Health. In 2017, Senate Bill No. 508 was passed to amend the Oklahoma Home Bakery Act of 2013. As of Nov. 1, 2017, home-baked bakery items can be sold off-premises in selected locations.⁸

Southeastern Oklahoma: Demographics and Market

Growth Rate	2017	2016	2015	2014
Durant⁹	2.04%	1.27%	1.54%	1.23%
University¹⁰	13.3%	6.2%	-0.006%	-0.32%

Table 1 - Growth Rates

Caked Up! is located in the southeastern part of Oklahoma in Durant. With new industries, university growth and a large casino nearby that brings in visitors and employs local residents, Durant is currently growing at an annual rate of over 2%. In January of 2018, Durant Area Chamber of Commerce announced plans for an Art District that would include a walking trail from the casino to Main Street. The

⁷ Furgison, Lisa, How to Start a Bakery: The Ultimate Guide for Bakers <https://articles.bplans.com/the-bakers-guide-to-opening-a-successful-bakery/> (accessed 9/27/2018)

⁸ The New OK Home Baking Act of 2017 <http://factsheets.okstate.edu/documents/fapc-183-understanding-the-oklahoma-home-bakery-act/> (accessed on 9/26/2018)

⁹ World Population Review: Durant, Oklahoma Population 2018 <http://worldpopulationreview.com/us-cities/durant-ok-population/> (accessed 9/27/2018)

¹⁰ SE Student Quick Facts <http://www.se.edu/dept/academic-affairs/se-student-quick-facts/> (accessed on 10/2/2018).

hope is that this initiative would bring casino guests into the local shops on Main Street. Lauran believes that her market comes from the Durant area as well as the surrounding communities in Bryan County, Oklahoma. Bryan County is leading in jobs and economy in the last three years in the Texoma area¹¹. Bryan County was expected in 2010 to grow at 0.80% for the next 65 years but in 2016, the growth rate exceeded those long term expectation at 1.2%. In addition, Durant is the home of Southeastern Oklahoma State University and they just reached the highest enrollment in 40 years at 4,483 students.

Demographics: Majority	Age	Income	Education	Race
Durant ¹²	33.2 Female 30.1 Male	\$45,312 per household	HS Graduate	White 70.5%
Bryan County ¹³	37.5	\$39,936	HS Graduate	White 72.3%
University	23	\$53,500 family income	N/A	White 53.5% ¹⁴

Table 2 - Demographics

A quick search of custom cakes in Durant, Oklahoma has Caked Up! at the top (see Figure 1). Lauran is excited about her community's awareness of her shop and identifies grocery stores and home bakers as her greatest competition. Several coffee shops have recently opened in Durant. Since Lauran also sells coffee, she was excited to see Caked Up! in the top five of a recent Google search (see Figure 2).

¹¹ Amelia Mugavero, "Explosive growth boosts Bryan County" www.kten.com/story/38957778/explosive-growth-boosts-bryan-county (accessed 10/2/2018).

¹² World Population Review: Durant, Oklahoma Population 2018 <http://worldpopulationreview.com/us-cities/durant-ok-population/> (accessed 9/27/2018)

¹³ Bryan County, OK Data USA, <https://datausa.io/profile/gio/bryan-county-ok/> (accessed 10/1/2018)

¹⁴ Student Quick Facts, Southeastern Oklahoma State University, <http://www.se.edu/dept/academic-affairs/files/2016/10/SE-Quick-Facts-Fall-2017.pdf> (accessed on 10/2/2018)

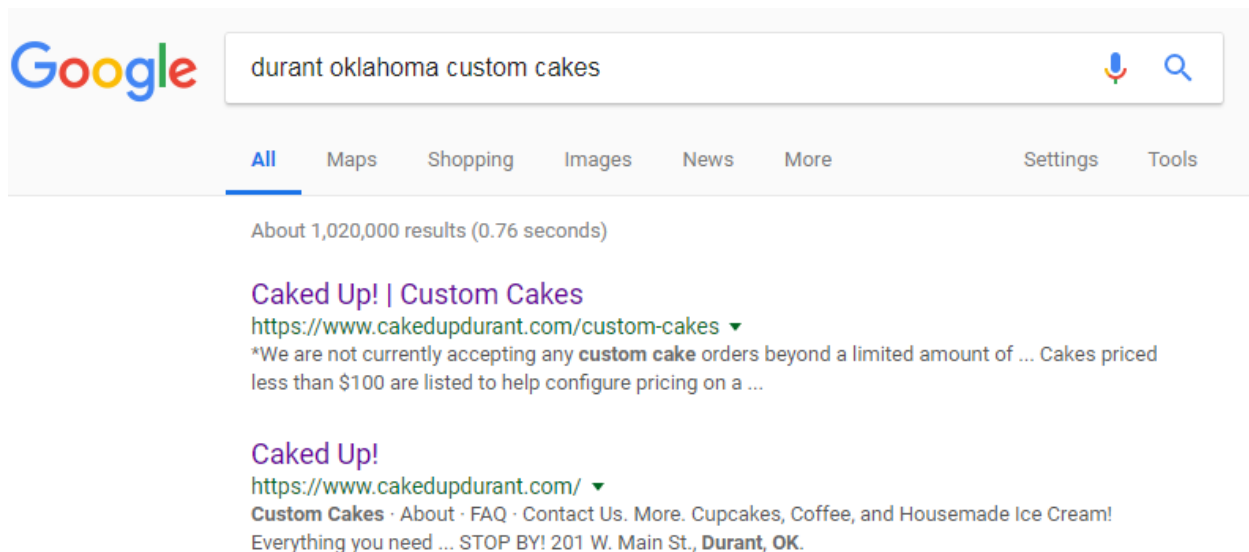


Figure 1

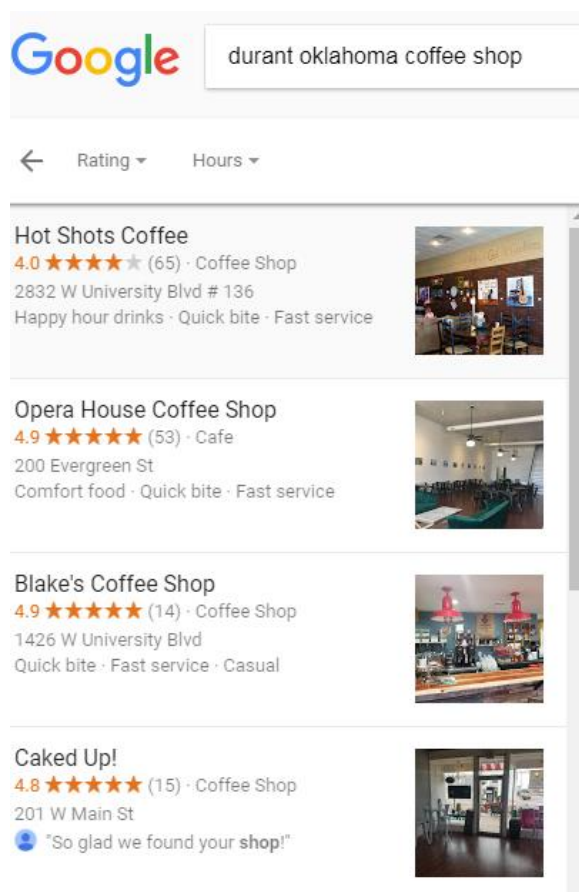


Figure 2

Caked Up!: The Journey

Lauran attended a cake decorating class in 2007 and learned that she had a skill for baking and decorating cakes. She started making cakes for her family and friends for special events. Lauran's brother took one of her cakes to his girlfriend's birthday party at a local restaurant and others took notice of Lauran's skills. Locals started asking her to make cakes for parties. Demand got so great that she decided to start selling cakes out of her home.

When Lauran was in business school she discovered a desire to win her own business. So, she took this desire and her ability to decorate cakes, a \$10,000 bank loan and opened her home-based business in March, 2014, when her second child was six months old. By the time he turned one, she had opened her first store front on Thursday, Friday and Saturday. She started with customized wedding cakes, but soon found that customers wanted more. By the time her son was three, she had moved her store front to Main Street, paid off the bank loan and started selling a variety of items including cupcakes, cake bites, cookies and ready-made cakes.

Today, Lauran's biggest seller is cupcakes followed by ready-made cakes, custom cakes, cake bites and ice cream. She has three children now, runs the bakery, and works part-time at her church. Lauran has learned to manage her time and say no when necessary and always finds ways to put her family first. Not only do the kids have a playroom at the bakery, but often when in a bind, her husband and her parents will help her with big orders or be her sounding board for ideas and financial advice. Lauran often talks to her dad about the future of the business. He encourages her to follow her dreams, but to take care of herself financially. Lauran also serves as a member of the School of Business Advisory Council for her alma mater. She often seeks and welcomes advice from her former professors in marketing, management and accounting.

Normally Lauran does not rearrange her schedule to accommodate, but she recognized a great opportunity when one came along in the form of nationally recognized country singer, Blake Shelton,



Figure 3

shown with the cake pictured in figure 3. So, Lauran made an exception and baked and decorated a cake on short notice. When she asked them why they called her, they told her she was the only one who would accommodate and when they Googled “bakery”, she was the first one they called who would bake and decorate on short notice.

Lauran’s competition is local grocery stores and home bakers. However, she currently does not feel threatened by the competition and is excited about growing her business. Lauran’s current marketing efforts include social media and a website, but within the next year she would like to set aside some earnings to invest in a better marketing plan.

Since opening her business Lauran earned her MBA and enjoys using her education and experience to look for ways to obtain her financial goals. Lauran gathers business data and knows that approximately 45% of her customers are returning customers and most are moms buying custom cakes or young adults walking in buying cupcakes and coffee. Lauran states that a custom wedding cake has the highest profit margin, but her top seller is the cupcakes. She knows she has a good product, a good location and a good reputation. But with her time in the bakery, she finds it difficult to use her management skills to grow her business. She has the ability to expand her products, but again is limited by time and resources to market her new products.

When asked about her dreams, Lauran says that her top three objectives are to start paying herself a salary, manage the business more and bake less to pursue her PhD, and expand her offerings to include such things as pies, pastries, cheesecakes, scones and maybe casseroles. The storefront she currently rents has a kitchen with ovens, but due to restrictions, there is no cooktop thereby limiting her offerings to baked goods. Lauran’s goal is to have no overlap in employee time, but also to never be alone at the bakery so that she can focus on custom orders and her family. Based on the results of a Facebook survey,

Lauran decided to open the shop in the evening and now runs Facebook promotions for “dessert after dinner”. She has been open in the evenings for three months and looks forward to gathering enough data to determine if this was a profitable business decision. With the addition of these hours, the income statements reflect payroll costs based on an average of \$10 per hour, 52 weeks per year and 60 hours of hired work during the week for 2017, but for 2018, the number of hours per week for hired work is 85. Her employees are trained to perform every function of the business from ice cream scoops to baking and decorating cupcakes. However, Lauran is the only one who can decorate a custom cake to the level of quality she requires of her products.

In 2018, Lauran projects sales of around \$135,000 per year and projects to break even without paying herself a salary. She is looking to grow her business so that she can go to school and earn her PhD in Marketing and use her bakery not only as a way to financially source her education but to use her business as a way to teach students about entrepreneurship, management, marketing and cost accounting. While she enjoys baking and decorating cakes, her real passion lies in the business behind the cakes.

Lauran admits that she needs more information and breakdown on the cost of each product as well as the separation of the baked goods but originally estimated her cost is around 30% per item. Lauran states, “Okay, so I try to keep my product cost under 30%. But I can honestly admit that I haven’t done the math on every product (sometimes I do loose calculations). But that doesn’t always include packaging.” After careful consideration, the cost of goods sold for each product was estimated in the income statements presented in figure 8. She is suspicious that cupcakes are her best and most profitable item. Although many customers come in for ice cream, most just come in for one scoop. Most walk-in customers on the other hand often buy cupcakes in multiples of 6 or 12. Her coffee is also a walk-in item that she would like to spend more time



Figure 4

marketing. She feels like she has the best coffee in town, but does not yet have the reputation she would like for coffee. Lauran serves PT's Coffee and chooses it for not only the flavor but for the values of the company (see figure 4).

Lauran also has some screen shots of her "Square Point of Sale" data which includes credit and debit cards (Figures 5, 6 and 7). She discovered while reviewing the numbers that she needs more detail in the breakdown. "Apparently I...never added an ice cream category. I went back just now and did but it may have fallen under uncategorized with the custom orders. Baked goods is what it says and includes cupcakes, brownies, cake bites, etc. Non-cake items are things like cake decorating kits, candles, delivery fees. And then the seasonal category includes chocolate covered strawberries, special boxes for holidays like valentines or Halloween, and cupcake wreaths."

YEARLY GROSS SALES

2018 compared to previous year.

+16.75% more in sales so far than in 2017.

● 2018 (\$87,615.37)

● 2017 (\$75,043.31)

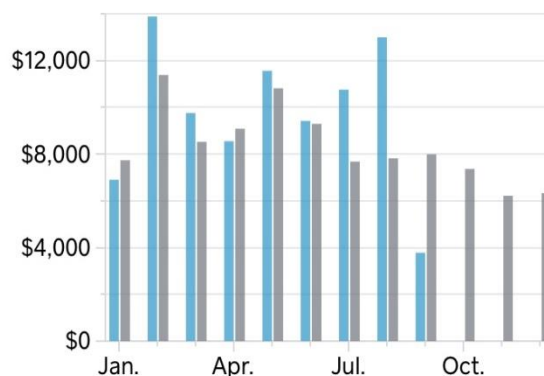


Figure 5

Caked Up! LLC	
Jan. 2017–Dec. 2017	
CATEGORY	GROSS SALES
Uncategorized	\$12,270.19
Baked Goods	\$57,870.90
Coffee/Drinks	\$5,059.00
Cookies	\$6,212.68
Merchandise	\$219.00
Non-Cake Items	\$5,656.22
Seasonal	\$3,545.00
Whole Cakes	\$9,435.00

Figure 6

Caked Up! LLC	
Jan. 2018–Dec. 2018	
CATEGORY	GROSS SALES
Uncategorized	\$15,536.52
Baked Goods	\$42,512.35
Coffee/Drinks	\$3,500.75
Cookies	\$6,538.50
Merchandise	\$57.00
Non-Cake Items	\$6,373.25
Seasonal	\$4,992.00
Whole Cakes	\$8,105.00

Figure 7

Profit and Loss Statement			Profit and Loss Statement		
Caked Up			Caked Up		
For the period ending 12/31/2017			For the period ending 12/31/2018		
				8/31/2018	Projected
Revenue			Revenue		
Baked Goods		\$57,871	Baked Goods	\$42,512	\$63,768
Coffee/Drink		\$5,059	Coffee/Drink	\$3,501	\$5,252
Cookies		\$6,212	Cookies	\$6,539	\$9,809
Merchandise		\$219	Merchandise	\$57	\$86
Non-cake		\$5,656	Non-cake	\$6,373	\$9,560
Seasonal		\$3,545	Seasonal	\$4,992	\$7,488
Whole Cake		\$9,435	Whole Cake	\$8,105	\$12,158
Noncategorized		\$12,270	Noncategorized	\$15,536	\$23,304
Total Revenue		\$100,267	Total Revenue		\$131,423
Expenses			Expenses		
Cost of Goods Sold			Cost of Goods Sold		
Baked Goods	30%	\$17,361.30	Baked Goods	30%	\$19,130.40
Coffee/Drink	20%	\$1,011.80	Coffee/Drink	20%	\$1,050.30
Cookies	25%	\$1,553.00	Cookies	25%	\$2,452.13
Merchandise	50%	\$109.50	Merchandise	50%	\$42.75
Non-cake	40%	\$2,262.40	Non-cake	40%	\$3,823.80
Seasonal	50%	\$1,772.50	Seasonal	50%	\$3,744.00
Whole Cake	20%	\$1,887.00	Whole Cake	20%	\$2,431.50
Noncategorized	40%	\$4,908.00	Noncategorized	40%	\$9,321.60
Total Cost of Goods Sold		\$30,865.50	Total Cost of Goods Sold		\$41,996
Gross Margin		\$69,401.50	Gross Margin		\$89,426
Operating Expenses			Operating Expenses		
Rent		\$12,000	Rent		\$12,000
Utilities		\$6,000	Utilities		\$6,000
Payroll		\$31,200	Payroll		\$44,200
Office Supplies		\$2,400	Office Supplies		\$2,400
Travel		\$4,000	Travel		\$4,000
Marketing		\$2,400	Marketing		\$2,400
Depreciation		\$6,000	Depreciation		\$6,000
Total Operating Expenses		64,000	Total Operating Expenses		77,000
Operating Income		\$5,402	Operating Income		\$12,426
Income Taxes		\$1,350	Income Taxes		\$3,107
Net Income		\$4,051	Net Income		\$9,320

Figure 8

Caked Up! Teaching Note

INSTRUCTOR'S MANUAL

Case Overview

Caked Up! is a small, local bakery in Oklahoma owned and operated by cake designer Lauran Fuller. Caked Up! serves cake, cupcakes, house-made ice cream, coffee, and an assortment of baked goods including cake pops. In addition, they offer custom cake orders for weddings, birthdays, and other special occasions. Lauran grew up loving to bake, but desired to make treats look as good as they tasted. In 2007, she took her first cake decorating class and realized that she had a unique talent for cake decorating. Over the next few years, Lauran perfected her baking skills making birthday and wedding cakes for family and friends. During that time, she also married and started a family. As word of mouth stimulated demand for her custom cakes, she knew that she needed to find a way to open a storefront that allowed her the flexibility to still be with her three small children. In March of 2014, Lauran opened the Caked Up! retail storefront. The case explains Lauran's bakery from passion to performance, and gives an overview of the internal and external factors that have influenced its growth. In September of 2018, there are three key issues that Lauran is considering to improve Caked Up!'s likelihood of success: (1) identifying strategies to move the business in the direction of financial stability and profitability, (2), recruiting and training a team of skilled cake designers to assist in baking and decorating and (3) transitioning herself into a managerial role and not that of baker/cake designer to begin a doctoral program.

Courses and Levels for Which Case Is Intended

This case may be used in courses that focus on strategic management and entrepreneurship. It is suitable for an advanced undergraduate or graduate level course.

Research Methods

Primary and secondary data sources were used to develop the case. The in-depth interviews with the owner of the business were the main source of information.

Learning Outcomes

In completing this assignment, students should be able to:

1. Identify key stakeholders.
2. Recognize the relationships and interdependencies that exist between the internal and external environments.
3. Identify internal and external factors that can successfully determine the strategies a company needs to implement in order to move to the next stage of the organizational life cycle.
4. Identify a company's position in the organizational life cycle.
5. Identify factors that contribute to a company's survival in the early stage of a business venture.

Relevant Readings

Robert Quinn and Kim Cameron, "Organizational Life Cycles and Shifting Criteria of Effectiveness: Some Preliminary Evidence," *Management Science* 29, no. 1 (1983): 33-51.

Kaja Primc and Tomaz Cater, "The Influence of Organizational Life Cycle on Environmental Proactivity and Competitive Advantage," *Organization & Environment* 29, no. 2 (2016): 212-230.

Tony Grundy, "Rethinking and Reinventing Michael Porter's Five Forces Model," *Strategic Change* 15, no. 5 (2006): 213-229.

Discussion Questions

1. Conduct a SWOT analysis of Caked Up! that includes Porter's Five Forces.
2. At what stage of the organizational life cycle is Caked Up!?
3. What strategies should Caked Up! use going forward?

Discussion Question Answers

1. Conduct a SWOT analysis of Caked Up! that includes Porter's Five Forces.

The instructor should guide students to identify the following strengths, weaknesses, opportunities, and threats (including mention of Porter's Five Forces) that define Caked Up!.

Strengths

Financial status. In March of 2014, Lauran started Caked Up! with a \$10,000 loan from a local bank. With this source of funding, she was able to open the business and grow her sales enough to successfully pay off the initial loan by March 2016. With continued success in sales, she was able to make storefront improvements and purchase storefront fixtures (e.g., display cases for bakery items.) She currently has very little debt related to the business.

Business location. Caked Up! Is located in the immediate downtown area, which makes it very accessible for local customers, as well as for those who are touring the area. The city has future plans to revitalize the downtown area, which will only make the location even more desirable.

Walk-ins. Caked Up! offers a variety of walk-in items, such as coffee, cupcakes, cake pops, and ice cream, which attracts passers-by.

Web-presence. When you search the web for custom cakes in this location, Caked Up! is the first one on the list and the only one in the immediate area. This web-presence was certainly beneficial when a nationally recognized country singer, and his famous girlfriend, Googled "bakery" and found Caked Up! at the top of the list. They called Lauran to see if she could decorate a cake on short notice and she eagerly accommodated them.

Recognition. Caked Up! has successfully built a reputation for itself, in the small southeastern Oklahoma town, as a premium bakery in the area through word-of mouth and referrals. Additionally, Lauran has determined that 45% of her customer base is returning customers.

Decorating/baking skill. Lauran has a personalized skill set with her baking and decorating abilities. She had a natural talent, which she perfected with practice and performance, as well as cake decorating classes.

Educational background in business. Lauran earned an MBA from a respectable university in southeast Oklahoma, where she learned valuable business skills for operating a small business. She

has a strong desire to continue her business education by obtaining a PhD in Marketing, which would only further enhance her business skills.

Problem solving/mentorship. Lauran serves on the advisory board for the School of Business at the local university, which is also her alma mater. She has maintained and further enhanced relationships with her former professors through this advisory board. Additionally, Lauran is able to network with others who are business savvy and are willing to assist her with questions, concerns, and brainstorming business ideas.

Family support. Lauran trusts her father's business mentoring, and her mom is available to help her in the bakery or with the children, as needed. Additionally, Lauran's husband serves as a sounding board and offers a great deal of support. To further enable the family support, Lauran has a play area in the bakery for her children.

Workforce. Caked Up! is located in a college town where there are always students who need jobs and are available for flexible schedules and relatively lower wages.

Weaknesses

Staffing. Caked Up! is a personalized brand, known for its owner, Lauran's, decorating skills and baking expertise. Lauran cannot train a person who can exactly replicate her level of skill and expertise. Therefore, although employees are available, the desired skills are not necessarily teachable.

Financials. Lauran tries to keep her costs low and her financial statements show to be profitable. However, Lauran does not have a strong grasp of how much her products cost to produce. For example, she knows that she sells the greatest quantity of cupcakes, but she has no idea how much each cupcake costs her to make. Also, she does not pay herself, so she does not currently include a price for labor in the total.

Product categorization. Lauran uses a program on her phone, Square Point of Sale, for her credit and debit card sales. However, she does not have a clear breakdown of the products categorized into this program, so she cannot be certain of her exact sales for each product. For example, when ice cream is sold the program on her phone does not have an ice cream category listed, so it, too, falls under baked goods.

Product offering. Currently, all edibles at Caked Up! are considered unhealthy options. Although these dessert items are her core competencies, she is not reaching all target markets.

Marketing. Caked Up! has a website, but the only method of advertising used is social media sites.

Business plan. Lauran created an initial business plan for the business, but has failed to update the plan and make changes as her business has grown and changed.

Educational pursuit. Lauran has a strong internal desire to continue her education. That strong desire to pursue her PhD in Marketing may be considered a weakness, as it will require much of her time.

Opportunities

Educational pursuit. If Lauran pursues her PhD in Marketing, it will further enable her to not only acquire a great depth of business knowledge, but also to gain expertise in marketing the business and its products.

Social media. Caked Up! currently uses two social media platforms as a means of advertising, but there are additional ways to capitalize upon the social media reach and scope.

Marketing and promotion. Currently, less than 2% of revenue is used for marketing and promotion. Caked Up! could potentially gain visibility and boost sales by increasing marketing and promotion using multiple avenues (e.g., wedding and bridal social media sites, local advertising, bridal magazines, bridal/wedding shows, boutiques, etc.)

Strategic partnerships. Forming a partnership with local food sources, such as coffee shops, restaurants, food trucks, and catering businesses, could be a resourceful means for selling products and advertising the business.

Food truck. Millions of food trucks are currently registered in the United States and have been an increasingly popular trend. Caked Up! could invest in a food truck to sell and distribute baked goods (e.g., cupcake truck) throughout the area, but especially at break time for local businesses and on the university campus.

Overall industry growth and popularity. As referenced in the case study, the research market company IBISWorld reports that the bakery industry is in a growth stage starting in 2009 to 2014 with a growth rate of 7.2% per year and a predicted growth rate of 5.9% in 2019.

Millennial population. With popular television shows such as Cupcake Wars, Magnolia House Bakery and 2 Broke Girls, the cupcake trend increased in popularity with the millennial generation (ages 22-37). The business is located in a college town where the demographic includes a high concentration of millennials. This group is known for their attraction to grab-and-go options, such as those offered at Caked Up! (i.e., cupcakes, coffee, and ice cream.)

Wedding trends. The trend for elaborate weddings allows Caked Up! the opportunity to access a large population with her talent for baking and decorating wedding cakes.

Health food trend/additional products. Caked Up! could capitalize sales by increasing the product offerings. Lauran has capabilities to produce and sell additional products to reach wider target markets.

With more and more people becoming health conscious, Lauran could create a healthier option available within her bakery.

Future downtown improvement. The city council has stated plans of making major improvements and renovations to revitalize the downtown area where the bakery is located.

Low competition. Caked Up! doesn't have any storefront competition in the area, which means it should be able to continue to capture the market share.

Bargaining power of suppliers. The bargaining power of suppliers is relatively low due to the common availability of baking products. Therefore, Lauran has the opportunity to shop around for lower cost ingredients and supplies.

Threats

Competitive rivalry. In-home bakers in the area may be able to compete with prices and comparable products. As referenced in the case, the Home Bakery Act of 2013 became effective November 1, 2013. The Act allows individuals to produce and sell, from their homes, certain types of baked goods but sales are limited to \$20,000 per year with no state license required. Effective November 1, 2017, The Home Bakery Act of 2013 has been amended with a few changes. Prior to November of 2013, all food sold to consumers in the state of Oklahoma was required to be manufactured in a facility inspected by the Oklahoma Department of Health. In 2017, Senate Bill No. 508 was passed to amend the Oklahoma Home Bakery Act of 2013. As of Nov. 1, 2017, home-baked bakery items can be sold off-premises in selected locations.

Barriers to entry/threats of new entrants. Other than meeting state and local requirements for a food service business, and other such regulations, it is relatively easy to enter the baked goods and specialty cakes industry in this location.

Buyer power. Buyers have options for other bakery/dessert items in the area, especially for her walk-in customers. Also, the business is in a college town, which means less traffic during the summer months.

Substitute products. The target market has the ability to do-it-yourself bakery items, as well as products from local grocery stores, large-scale retailers, and restaurant chains (e.g., Wal-Mart, Brookshire's, McDonald's, etc.)

Compliance with policy. There are specific laws and codes, enforced by the Department of Health and Human Services (DHHS) that must be adhered to when handling food. Food licenses may be

rescinded if violations occur, so maintaining compliance and staying abreast of policy changes is vital for this business.

2. At what stage of the organizational life cycle is Caked Up!?

The instructor can begin a discussion with students about the four stages of the organizational life cycle (OLC) (See sources in relevant reading section). What criteria must Lauran consider at each stage to ensure the success of Caked Up!?

The first stage of the OLC is the *entrepreneurial phase*, which is described by the following:

- Marshaling of resources
- Lots of ideas
- Entrepreneurial activities
- Little planning and coordination
- Formation of a “niche”
- “Prime mover” has power

In this first phase (also known as the start-up phase), the success of Caked Up! will tend to be associated with its flexibility, growth, resource acquisition, the development of external support, and readiness.

Caked Up! falls predominately in this phase, which is characterized by Lauran’s need to create brand awareness and the generation of early sales. Branding, marketing, and sales are critical at this point.

Student suggestions may include increasing brand awareness by finding appropriate ways to connect with the target market. Customer outreach could be improved by reviewing the data analytics Lauran has from Square POS, social media, surveys, and her website. Innovation and risk taking are necessary at this stage for Caked Up! to move into the next stage of the OLC. Students will also have to consider Lauran’s desire to take on a predominately managerial role to pursue her PhD, and how that impacts Caked Up!’s growth strategy.

The next stage of the OLC is the *collectivity phase*, which is described by the following:

- Informal communication and structure
- Sense of collectivity

- Long hours spent
- Sense of mission
- Innovation continues
- High commitment

In the second phase, human relations criteria appear to dominate in defining organizational effectiveness. Luran must consider conditions such as information communication and structure, a sense of family and cooperativeness between personnel (group unity), high member commitment, and personalized leadership. Luran must plan strategically and make decisions that align with the values, mission, and vision of the company. Some suggestions students may have could include: creating an updated business plan with a well-defined mission and vision supported by the SWOT analysis, increasing repeat business and bulk orders, growing market share, and finding innovative ways to cut expenses without compromising quality.

The third stage of the OLC is the *formalization and control phase*, which is described by the following:

- Formalization of rules
- Stable structure
- Emphasis on efficiency and maintenance
- Conservatism
- Institutionalized procedures

In the third phase, goal setting and goal achievement, productivity, well-organized communication, and stability control primarily define effectiveness of the organization. In this stage it is recommended that Luran assess effectiveness quantitatively using productivity measures. Major indicators of effectiveness that Luran can consider include achieving efficiency, being result oriented, and having established plans and procedures for accomplishing tasks. This phase, characterized by maturity includes large market share, fully developed systems and procedures, and a highly efficient and engaged staff. At this point

sales have typically leveled off and Lauran will need to monitor the competition, while striving to become more efficient and innovative to move into the survival stage versus decline.

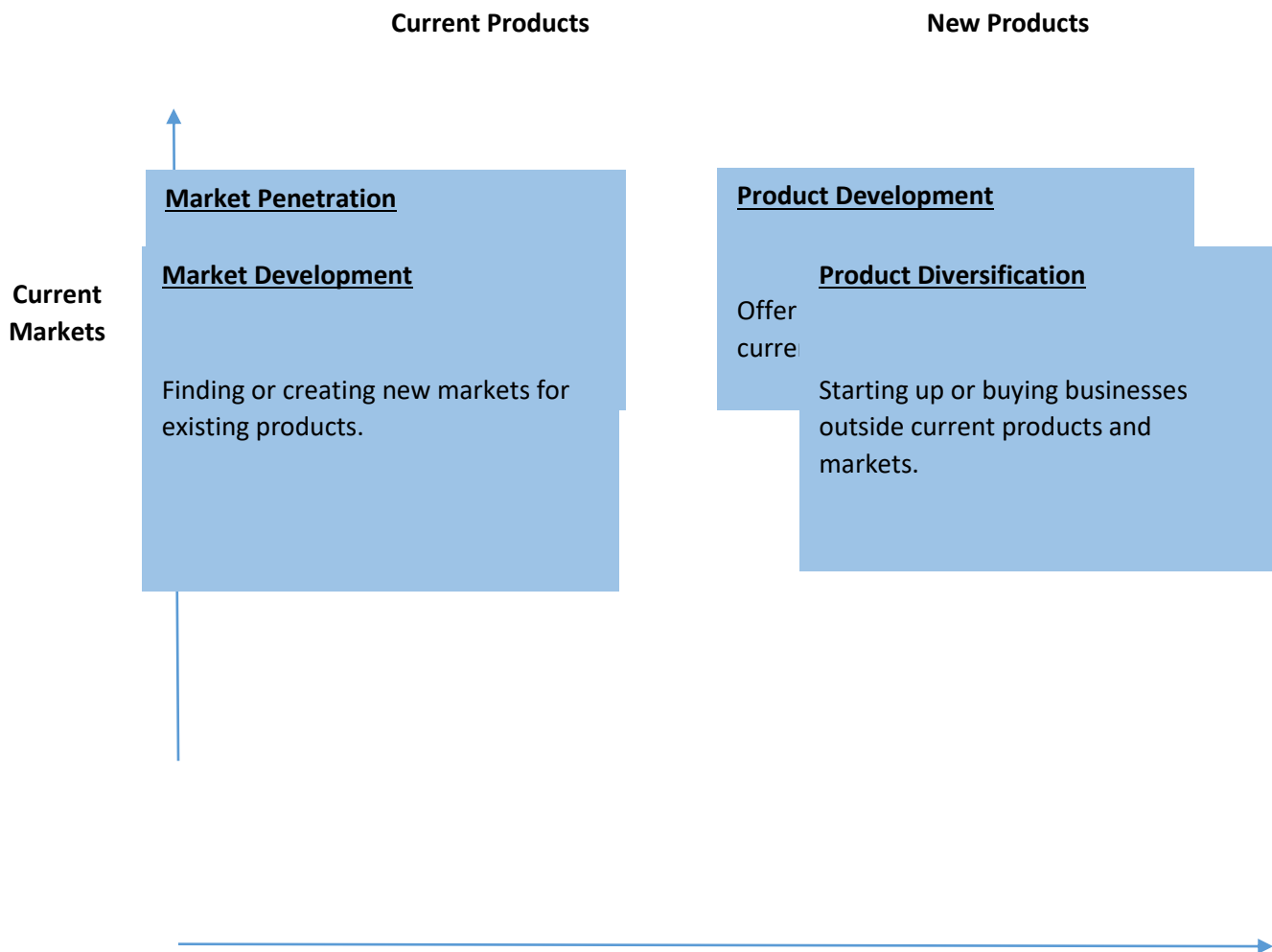
The last stage of the OLC is the *elaboration of structure phase*, which is described by the following:

- Elaboration of structure
- Decentralization
- Domain expansion
- Adaptation
- Renewal

In the last phase, the organization studies the external environment in order to recharge itself or grow its domain, or both. While Lauran must still consider criteria from the first three phases (internal process, human relations, rational goal model), the focus in the final stage emphasizes flexibility, resource acquisition, and growth. Organizations successful at this stage have been described as those that develop at the boundary of the organization and control environmental relationships. If successful, Lauran will move the company into the revival stage where she and her team will continuously think of ways to reinvent Caked Up! to stay successful. At this point, Lauran will respond versus react to both internal and external factors while seeking opportunities and making decision about what to do next.

3. What growth strategies should Caked Up! use going forward?

Suggested strategies for Caked Up! include (1) market penetration to increase sales, (2) product development to identify new menu offerings, (3) market development to increase exposure, (4) concentric diversification to sell mugs, travel mugs, t-shirts, tea towels, and (5) strategic alliance with restaurants and food trucks.



- **Market Penetration.** The goal of market penetration is to increase Caked Up!’s market share. Lauran could spur growth through marketing mix improvements- modifications to products, advertising, pricing, and distribution efforts. Specific examples students may mention include: products relaunch, rebranding, or increasing brand awareness- which Caked Up! could do by increasing its presence on social media. By gaining more followers on social media the bakery will expectedly gain more recognition, which will likely increase profits.
- **Product Development.** Product development involves changing or increasing the Caked Up! menu offerings to add more variety for current customers. Currently, Lauran is limited to baked goods since there is no cooktop. Therefore, a range has been established- baked goods. Now new types of products within that range can be developed. This could include adding more baked goods such as pies, pastries, tarts, cheesecakes, scones, and possibly savory casseroles.
- **Market Development.** The goal of market development is to add new geographical opportunities for Caked Up!’s current products. Lauran could find or create new markets by targeting new parts of the market- such as increasing its marketing to businesses, or expansion into different market (i.e. offering coffee and cupcakes out of a Caked Up! food truck at local businesses, events, and the Southeastern campus).
- **Product Diversification.** Typically, this strategy comes with the most risk- starting up or buying businesses outside the current products and markets. If diversifying, Lauran must be careful not to overextend Caked Up!’s brand positioning. Student answer could include concentric diversification including the sale of coffee mugs, travel mugs. T-shirts, tea towels that featured the Caked Up! logo and trendy cupcake and coffee sayings, such as “But first, coffee”, or “Happiness is only a cupcake away”.
- **Strategic Alliance.** Strategic alliance can increase sales through collaboration between two companies. Each business remains independent, but shares in profits generated from the endeavor. Lauran could consider having her cupcakes and other baked goods sold in local restaurants, coffee shops, or food trucks in the form of a promotion- “Caked Up! Cupcakes Served Here”. This activity could potentially benefit both parties.