

Sift cupcake and dessert bar case

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Dominant Economic Features Market Size and Growth Rate Nationwide cupcake sales projected to rise another 20% between 2009 and 2014 Retail bakery sales expected to grow 8.

1% per year on average through 2014 106 cupcakes in the bay area Sift estimates net sales of around \$961, 000 in 2010 Number of Rivals As of November 1, 2010, there were 106 cupcakes in the bay area Hundreds of additional bakeries, dessert bars, and other commercial venues also selling cupcakes Grocery stores and big box in-store bakeries Scope of Competitive Rivalry Most companies compete locally and regionally

Few companies like Sprinkles compete nationally Number of Buyers In 2009, customers between 35-54 years old spent the most on bakery products Largest percentage of Gift's customers are ages 25-34 Largest percentage of Gift's customers have total family income of over \$100, 000 Largest percentage of Gift's customers are individuals with no children followed by parents with children under 10 years old Shoppers buying cupcakes for themselves as dessert snacks Parents buying for children Shoppers buying for events such as birthday parties Consumer Spending on Bakery Products by Age Group Gift's Customers by Parenting Group

Degree of Product Differentiation Products are relatively undifferentiated among competitors Rivals are making specialty cupcakes to differentiate Product Innovation Little new innovation in the baking industry Small costs associated with R&D in the baking industry Companies must research different recipes and the types of bakery products customers prefer Demand-supply Conditions Industry is majority small businesses competing

locally Demand for bakery products increasing represented by the 8.1% that bakery sales are expected to grow per year through 2014 Cupcake sales projected to rise 20% between 2009 and 2014 in the U. S.

Pace of Technological Change Increasing number of customers using the internet for everything including bakery shopping Must have user-friendly website for customers Vertical Integration Most competitors are fully integrated running every part of their small business Bigger competitors such as grocery stores are only partially integrated Economies of Scale Baking Industry is characterized by economies of scale especially in advertising and purchasing Bigger companies like Sprinkles can afford to purchase a larger quantity of materials to provide more options to customers Bigger companies can also spend more on advertising to increase brand awareness Smaller companies like Sift are profitable but are struggling to expand because of less capital Sprinkles, national leader in specialty cupcakes, plans to open 15 more locations in 2011 Learning/Experience Curve Effects High learning curve involved with being innovative and creative to attract customers Experience is needed to handle and satisfy customer's needs Experience is needed with baking equipment and other supplies Employees must learn recipes for different bakery products Exhibit 2: The Five Forces Model Competition Among Rivals - Moderate

Many competitors offering bakery products Weakly differentiated products Buyers costs of switching companies are low Rivals face low exit barriers Market growth Potential New Entrants - Moderate Buyer demand is growing and newcomers can expect to earn profits Existing industry members are looking to expand their market reach by entering product segments or <https://assignbuster.com/sift-cupcake-and-dessert-bar-case/>

geographic regions where they do not have a presence Entry barriers are relatively low Competition from Substitutes – Strong Acceptable substitutes for cupcakes and other bakery products are readily available Competitive prices for substitutes Low buyer costs to switch to substitutes Power of Suppliers – Weak Large number of suppliers with relatively small market shares Industry member’s switching costs to alternative suppliers are low Suppliers have less bargaining leverage over industry members High competition among suppliers Power of Buyers – Weak Buyers have little leverage and do not buy large quantities Large number of buyers Little bargaining power over price Buyers are not very price-sensitive Is the Collective Strength of the Five Competitive Forces Conducive to Good Profitability?

The industry is conducive to making a profit but not large attractive refits The threat of substitutes being strong and the large amount of competitors offering relatively undifferentiated products makes it difficult for industry members to make attractive profits Also the threat of new entrants is moderate because anyone with baking skills can start a small business with relatively low costs Exhibit 3: Driving Forces Increasing growth rate of industry Emerging new internet capabilities and applications Growing use of the internet by individuals Changing ways of advertising through social media sites Changing societal concerns, attitudes, and lifestyles Increasing demand of specialty cupcakes Exhibit 4: Strategic Group Map High Low Narrow Exhibit 5: Strategic Moves of Rivals Broad Competitors Strategies and Resource Strengths and Weaknesses Sara’s Cupcakes is primary competitor Have 6 Bay Area locations Currently operates 3 more locations than Sift

Sprinkles is the national retail specialty cupcake leader. Competitive advantage is larger size with 10 locations in major metropolitan areas around the U. S.

Expanding rapidly with plans to open 15 more locations in 2011. Offers specialty cupcakes during time when there is increasing demand for the product. Predicting Rival's Next Moves: Sprinkles has the size advantage over small local cupcakes and is growing rapidly which could potentially result in them acquiring small cupcake bakeries in the future. Small cupcake stores might try to move into other geographic regions or change product offering in order to gain more market share. Most stores will add a user-friendly website for customers to see their products online.

Exhibit 6: Key Success Factors for Future Competitive Success

- Exceptional customer service
- Attractive pricing
- Reputation and well-known brand image
- Product/flavor variety
- Location

Exhibit 7: Industry Outlook

Overall, the bakery industry is attractive based on the following reasons: The bakery industry is expected to grow by 8.

1% on average per year through 2014. The competitive forces are remaining constant except for rivalry among competitors is getting stronger. The driving forces will favorably impact profitability in the future mainly due to increasing demand and market growth. All but one competitive force is moderate or weak. Companies looking to differentiate their products and services more. Increased demand for specialty cupcakes.

Heavily involved in the community.

Weaknesses: Limited brand recognition
Inadequate line of credit for expansion
Inadequate cash flow for expansion

Limited financial resources Strategy easily imitated No chain of command and ineffective communication about processes and their implementation No processes in place to guide decisions Lack of day-to-day financial monitoring which negatively impacts profitability Increasing expenses due to simultaneously expanding and rebinding Opportunities Increase in market demand Growth potential in developing the wedding side of the business Repositioning to come a family dessert destination, which did not exist in local marketplace Opening mail order division of the business offers growth potential Threats Consumer trends towards healthier choices High unemployment Sputtering economy Grocery and big box in-store bakeries

Exhibit 1 1: Competitive Strength Assessment Advantage over main rivals is differentiation of products Sara's Cupcakes and Sprinkles only offer cupcakes Sift offers a wide variety of dessert products other than cupcakes Sift repositioned in the market as a family dessert destination Recommendations and Justifications Sift Cupcakes and Dessert Bar should implement option one as their new strategy which involves maintaining current locations Sift Cupcakes and Dessert Bar should implement the strategy of option one to be most successful in the future.

This strategy involves maintaining the stores Sift is currently operating in while further developing brand identity to own the local marketplace. Sift will keep a small business model while improving operational issues and strengthening their infrastructure. Although this plan does not allow for expansion like the other two options, this strategy will allow Sift to become more financially stable now while increasing their market share locally by concentrating only on that area. As shown in Exhibit 10 in the weaknesses

section of the SOOT analysis, Sift is currently expanding and rebinding simultaneously causing increased expenses from around \$1 56, 000 in 2008 to \$335, 000 in 2009. This increase in expenses is causing Sift some cash flow challenges for the first time since they opened.

Also, even though Sift is profitable, it does not have sufficient revenues to support the manager wages it currently has employed (Exhibit 9). This is a big indicator that Sift cannot currently afford to expand. Therefore, Sift should focus on making its current locations better by tightening up some of the issues they are currently experiencing. Examples of these issues are: no chain off command, ineffective communicating about implementation of plans, and lack of day-to-day financial monitoring. These issues are cited in the weaknesses section of the SOOT analysis in Exhibit 10.

Sift can increase its market share locally by simply focusing all of its financial and physical resources on its current operating locations.

The company can use its resources towards advertising and marketing more heavily in the Bay Area. By doing this they can increase brand awareness and begin to reach more customers locally. However, if Sift chose to expand by implementing one of the other two options, it would have very little revenue starting out to support the advertising and other expenses that would be needed to survive in these new locations. Also option two would have Sift open four new stores in 2011, and another two per year for the future, which it can't afford right now. The financial projections for this option show a substantial increase in net income in the future but Sift does not have the resources currently to fund the rapid expansion of this plan.

According to the market size and growth rate section of Exhibit 1, nationwide cupcake sales are rising and there are 106 cupcakes in the Bay Area. This might seem like a large number in a small area but there is plenty of room for Sift to enlarge its customer base locally. Increasing their brand identity will help with this but also the elements of their business strategy will retain the customers once they give Sift a try (Exhibit 8). Brand image and reputation is a key success factor for the industry and Sift should make it a top priority to increase theirs locally (Exhibit 6). Sift can accomplish this with the help of the extra money they will save from not expanding. This money can be used for television and magazines ads, or for billboards they currently can't afford.

The financial projection for option one indicates that this option carries the least amount of risk for Sift while also increasing revenues and net income. In 2013, the projected net income from using option one is \$214, 954, which is about a 40% increase over 2010. Sift should establish a mail-order division and also focus more on increasing the marriage side of the business Sift should add a mail-order division to their current business operations. This addition would give the customer a convenient option of having their cupcakes delivered to them if they could not come into the store. Sift would incur shipping expenses but since the majority of its customers are local, the increased revenues of these mail orders will cover the small expenses associated with shipping.

Customers ordering large quantities of cupcakes or other desserts for parties or other events could have them mailed that day which is attractive to customers. This addition could expand Gift's potential customer base beyond

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the reach of their local stores (Exhibit 10-opportunities). Many of Gift's competitors have already added similar mail-order operation to their businesses. Sift could focus more on the wedding side of the business to help increase their customer base. Sift has recognized that there is growth potential in this area of the business (Exhibit 10-opportunities).

Most people prefer to have the traditional wedding cake as opposed to cupcakes for their wedding. However, there are customers out there who are interested in replacing a cake with wedding cupcakes.

The reason Andre Balls started Sift is because of the lack of options she had when it came to designer cupcakes for her wedding. Sift could become more profitable and continue to grow if they take advantage of this increasing trend. Sift is already promoting wedding cupcakes by securing booth space at seasonal wedding expos. The company could also run ads in wedding magazines or magazines that are mainly targeted at women, strictly promoting designer wedding cupcakes.

Simply by increasing awareness of the alternative of wedding cupcakes could help Sift establish a larger customer base and increase their market share.