

## **Business Start-Up Case Study** **“Kate’s Cup Cakes”**

Kate wanted to start a food business. She was a keen baker and had developed recipes for several varieties of cup cakes in her own kitchen which friends and family loved. Kate had experience in Sales and Marketing but not in the food business.

The first step Kate took was to contact her local County Enterprise Board for tips and advice on how to start a food business. The CEB gave Kate some guidance and offered her a place on an “Investigate your business idea” training programme. After attending the course, Kate realised that she had to be organised about researching for her business to check the commercial viability of her new venture. She therefore went about putting in place a NPD project plan.

### **NPD**

Using a gantt chart and the stage gate process, Kate gave herself a six month period to check the feasibility of her business and divided her tasks into NPD, Financing, Consumer and Market Research, the search for external premises, if necessary, and for a food technologist.

Kate then contacted Teagasc for a list of Food Technologists in her area as Kate had no food manufacturing experience and soon realised that she would need assistance to make her recipes in larger batches while retaining that same home baked taste, assistance in finding suitable premises to produce the cup cakes so that they meet the required quality standards e.g. HACCP. Kate also needed advise on whether or not she would be able to produce the cupcakes at home as this was her preferred option, so she also looked up the HSE website for the contact details of her local Environmental Health Officer (EHO) to check if the premises was fit for purpose. Her EHO visited her home kitchen and pointed out several reasons why it would not be possible for Kate to produce the cup cakes in her home suitable for the retail market. The EHO gave her the option of either building and extension or seeking external premises.

Kate met her food technologist and together they discuss the option of either Kate manufacturing the cupcakes herself or sub-contracting manufacturing to a third party. After much debate and research, Kate chose to manufacture herself.

Through her local authority, Kate and her food technologist found a food incubation unit in shared premises with other start-up and established small food companies. Kate therefore carried out the remainder of the NPD on the cupcakes with the assistance of her food technologist. Kate received training in HACCP and an understanding of the necessary premises design and layout required to meet HACCP criteria. During the course of the NPD,

Kate and the food technologist wrote up the formulations, product specifications and production procedures for the cupcakes. Through contacts with the food technologist, Kate sourced the ingredients she required being careful to request specifications of all ingredients for her nutritional analysis. Kate also carried out a lot of research on the costs of her ingredients and ordering lead times. For packaging, Kate carried out research on all of the possible options both with packaging manufacturers but also through store audits. For the retail market Kate realised that she would need both inner and outer cases and had to take account of the cost of these.

Once the recipes were finalised, Kate's food technologist arranged for both shelf life and nutritional analysis as a prelude to working on labelling the cupcakes.

**As well as using this information and related cost to write up her Business Feasibility Study, Kate later used it to write the "Product and Technology" section of her business plan.**

#### **Consumer and Market Research, Branding and Labelling**

Kate realised from her own experience that the product label is often the first interaction a customer will have with the cup cakes and is therefore her number one marketing tool.

From her consumer research, Kate had established that her consumers with the most purchasing power did not like the artificial colours prevalent in all of her competitor's cup cakes. Kate had, through both secondary market research (Mintel reports obtained from Bord Bia, the research on consumer trends carried out by Bord Bia, other consumer and market research reports and consumer magazines) and primary market research (tasting panels at a farmers market stall she attended weekly, focus groups and questionnaires with the assistance of an independent market research sources through a third level institution – using a graduate in marketing who needed a market research project to complete their masters degree), segmented her customers into three main segments: children, mostly girls, from the age of six to fourteen, young adults, again predominantly female from the age of 19 – 24, and the mothers of young girls, aged 25 – 44. The latter segment was the one with the most purchasing power.

From her market research, Kate had established the size of the market in Ireland for cup cakes as being €2m per annum and she hoped to achieve 10% of this. She had segmented her market sectors into retail (the multiples and specialist food stores), foodservice (restaurants, café, hotels and Contract Catering companies) and online mail order (for weddings, communions and birthday parties). Her route to market was via a distributor for both retail and foodservice and through adding an online portal to her website. Kate carried out a SWOT analysis on all of her competitors as she has many competitors in Ireland and wanted to avoid launching a "me too" product. Following this analysis and the

analysis of her consumer needs and benefits sought, Kate developed a marketing position for her range of cup cakes using established unique selling points including: natural ingredients, no artificial colours (her food technologist assisted Kate with sourcing natural colours), Irish produced using Irish ingredients, provenance, as this was a family business, innovative individual packaging which also helped to secure longer shelf life for her products and pricing which represented good value for money.

Kate then came up with a Marketing Mix for each of her customer segments including a media relations PR campaign targeted towards the publications that her target customers read, to radio programmes that they listened to whilst commuting to and from work and to cookery and local business focussed TV programme. Kate worked on an informative, interactive website, blogs for recipe ideas and Facebook to create “fans” for her cupcakes. Kate also joined LinkedIn to keep in touch with relevant suppliers, buyers, journalists and contact in the food industry.

To reflect the USPs on the labelling, Kate used her own brand name and stories about her the founder on the reverse of the cup cake box label. With the assistance of her food technologist Kate ensured that the labels carried all compulsory information and she opted for the Group Two Format of Nutritional Analysis.

Kate wrote her Mission Statement following her consumer and market analysis with the assistance of her food technologist and partner.

**Kate used all of this information in the Consumer and Market research section of her feasibility study and at a later stage the Consumer and Market Analysis and Sales and Market Strategy sections of her business plan.**

### **Trademarking**

In order to protect her brand name, Kate ran a search on the availability of the name on both the Irish and European patent websites. The search was clear, so Kate opted for a CTM (Community Trademark) as she intends to export to other European countries in due course and to prevent other EU companies from using her brand name in the meantime.

**As well as using this information and related costs to write up her Business Feasibility Study, Kate later used it to write the “Product and Technology” section of her business plan.**

### **Financial Forecasts and Funding**

Throughout the course of her research on the commercial viability of her business, Kate kept a record of all costs associated with producing, distributing, selling and marketing her products so that she could come up with an accurate pricing model for each product. Through her Market research, Kate was able to forecast volume projections for the first

three years of the business having analysed her target retailers and foodservice sectors for indications of the level of demand. From this, Kate was able to compile projected Cashflow Analysis, Profit and Loss Accounts and Balance sheets for the next three years.

**As well as using this information write up the financial section of her Business Feasibility Study, Kate later used it to write the “Financial projections and funding requirements” section of her business plan.**

Once her business feasibility study was written and from that her business plan, Kate was convinced that she had a commercially viable business and had the confidence to go out and raise the necessary funding to launch her business.

Having been a PAYE earner for the previous six years, Kate applied for the Seed Capital Scheme from the Revenue Commissioners with the assistance of her accountant. This enabled her to make a share capital investment in her own company. As her partner also wanted to invest in the business, he made a BES investment in the company. This helped Kate to get the company set up and carry out required research, but to launch the company (Kate had to have labels and POS designed and printed etc.) and take on additional employees, Kate sought additional grants from her local CEB and applied for an Innovation Voucher (at this stage she had formed a limited company), working with a third level institution to carry out research on extending the shelf life of her products, full nutritional analysis and NPD on new innovative product ranges. At a later stage Kate applied to First Step for a loan to help her to hire an additional sales person as her business expanded.

### **Management Team and Company Structure**

Kate then proceeded to focus on building a management team that would have all of the necessary skills to run the business. As Kate had good sales and marketing experience but little knowledge of the food industry, she recognised the need for a QA/Production manager with food industry experience. Kate spoke to FAS about a graduate placement job and applied for employment grants through the priming grant application to her local CEB once her business plan was written. Kate also discussed her requirement for a chef to work with her in the production plant with FAS and used advice from the DETE and the SFA as well as her accountant on employment regulations and PAYE and PRSI obligations

Kate decided to form a limited company and registered the company name with the CRO.

**Kate used this information to write the “Company Structure and Operations” section of her business plan.**

**End.**