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La Baguette Case Study

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**La Baguette Case Study**

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## **La Baguette**

Some might say, Scott Brunello was primed to be a baker his whole life. It all began when his grandfather, Paul Brunello, was handed a small, struggling bakery and managed to turn it into a thriving business, with 37 trucks delivering fresh bread all around the Bay Area. Continually, Roger Brunello, Scott's father, followed in the footsteps of his father and opened his own bakery after Paul had sold his and retired. In 1981, Roger opened his first location of Le Boulanger in Los Altos, which had grown to three locations by the time Scott had officially joined the family business.

All throughout high school and college, Scott had worked after school and summers in the bakery. In 1987, after Scott had graduated from Santa Clara University with a BA in finance, he officially joined the company, which over the next 15 years had grown from 3 to 23 stores. Le Boulanger had rapidly grown and operated a 30,000 ft<sup>2</sup> plant and a 14 truck wholesale business. Around that time, Roger was looking to retire, which resulted in Dan Brunello, Roger's brother, and Scott to purchasing his shares in the business. A few years later, Scott decided he wanted to take a different route and focus his efforts on a more small scale operation where he could achieve a much higher quality product and customer service. So, Scott sold his shares in Le Boulanger and received La Baguette, which had originally been a part of the Le Boulanger company. In addition to the bakery, Scott received structured payments for his portion of the business. For the past ten years, Scott has dealt with numerous challenges and successes, always staying true to a long lasting family tradition of quality and respect for his employees. With a strong ability to adapt to new problems, Scott has built up the name of La Baguette into something he is proud and honored to represent. (La Baguette Website)

## **Specialty Eateries**

Due to the vast diversity of products offered at La Baguette, they interact and compete within multiple industries, one being Specialty eateries. The specialty eateries industry is composed of companies that serve specialty snack items for on premises consumption. Major players in the market include Dunkin' Brands, Einsteins-Noah Restaurants, Krispy Kreme, Starbucks, and Tim Hortons. Total revenue for this industry in the United States is about 26 billion across 50,000 retail stores.

Consumer demand is directly correlated to consumer tastes and preferences, demographic, and income. With the large chain competition saturating the market, small regional bakeries must carve out niche markets with repeat customers, "Small companies can compete effectively by offering high-quality menu items and providing superior customer service... Providing good customer service is generally a key ingredient for success, especially for high-end coffee shops, gourmet confectionery parlors, and beverage bars specializing in health drinks and smoothies. Customers may expect employees to be knowledgeable and make recommendations about gourmet food and beverage items" (First Research, Specialty Eateries, Industry overview).

## **Customer Service and Quality Employee Retention**

Scott has recognized this correlation of customer service and success in the industry, which is reflected in his acceptance and retention of high quality employees. He understands that his employees are what represent his business, which is why he strives to maintain a relationship of trust and respect with each and every one of his employees. Throughout the years, Scott has dealt with numerous employees who have been extremely beneficial as well as ones who have contributed negatively to the business. When Scott came into ownership of La Baguette, there



had been floor manager whom had gained the trust and respect of Scott but would act completely different when he was not around. This manager was hurting the relationships Scott had with the rest of his employees. After discovering this, and taking further action to deal with this manager, there was a new position that needed to be filled. Scott decided to promote one of his trusted employees, Rosa Gutierrez, to the position. Rosa has far exceeded Scott's expectations and continues to successfully manage La Baguette in Stanford. As a means of rewarding and retaining Rosa as an employee, Scott gave her a 5% stock share of the company. This gives a large incentive for Rosa to improve the company that she now owns a small portion of and to say with it to see it grow and progress. This retention of quality employees has allowed Scott to improve and even expand his business in ways that would not be possible without his current employees. Another vital employee to La Baguette is Marie Delemontex, who holds the title of general manager. Marie is from France and provides an element of French authenticity to the business. She is looked upon as a sort of matriarch due to her knowledge of the market and longevity working at La Baguette. Scott understands the necessity of quality employees in a business that is driven by quality customer service and customer interaction. With this goal of maintaining superior employees, Scott hopes that it will reflect in the quality of his products being produced.

### **Bakery Product Manufacturing**

The main goods that bakery product manufacturing produce are fresh breads, cakes, pies, and pastries. There are six huge global companies that hold most of the market share: Flowers Foods and McKee Foods (both based in the United States), ARYZTA (Switzerland), Group Bimbo (Mexico), Weston Foods (Canada), and Yamazaki Baking (Japan) (First Research, "Bakery Product Manufacturing"). The industry in the United States is divided into two main

sections. The first is the commercial bakeries with a total of 2,800, and combined annual revenue of \$36 billion (First Research, “Bakery Product Manufacturing”). This section is highly concentrated; meaning that the 50 biggest companies generate 75% of the revenue (First Research, “Bakery Product Manufacturing”). The second is retail bakeries with a total of 6000, and a combined annual revenue of \$3.8 billion. This section is highly fragmented; meaning that the top 50 companies generate only 15% of the total revenue. This sort of market structure leaves room for regional retail bakeries to thrive. See exhibit 1 for an industry outlook. The main factor for demand is consumer preferences. This means that the companies will have to differentiate themselves to consumers, and appeal to their target market. For individual operations, the primary way to increase profitability or demand is the efficiency of operations and value added products. This means offering differentiated goods and having a consistent supply. The bakery must understand the preferences of their target market and capitalize on these desires (First Research, “Bakery Product Manufacturing”).

### **Value added Products**

Scott recognized that he needed to differentiate his bakery from others in order to truly capitalize on the market. He recognized incredibly low production costs of baking on a large scale and capitalized on this idea. The added time and cost to produce extra loaves of bread was negligible with current production levels. This led Scott to develop different varieties of sandwiches, which can be assembled at a low cost to the bakery due to in house bread production and the ability to order the various inputs in bulk. La Baguette offers eleven varieties of specialty sandwiches, and customers also have the ability to customize their own sandwich within the parameters of available ingredients. These sandwiches can be marked up 3-400%, driving considerable sales and profit for the business.

He was further able to implement this high margin strategy into menu items such as quiches, soups, salads, and pizzas. These items allowed the business to not only capture the pastry and baked goods crowd, but also expand into the lunch market of the bustling Silicon Valley. This differentiated La Baguette from other local eateries and truly capitalized on the local demographics tastes and preferences. Due to this, Scott noticed a large upturn in local business people looking for a quick, tasty, and relatively healthy lunch option. To see a profile of the larger in store service bakery sales, see exhibit 2 & 3.

### **Further Profit Drives**

Another high margin product for the bakery is bottled water sales. The affluent area prefers water from bottles over public sources. Therefore Scott makes sure to stock the bakery with multiple brands. These bottles can be purchased at very low prices in bulk and marked up, in some cases, up to 800%. Furthermore, the bottled water is easy for the bakery to offer with their in house products because all they require is cooler storage space, an easy accommodation.

In the recently opened San Francisco location, Scott is experimenting with in house made gelato offerings. It has proven difficult to fully dial in recipes and drive the sales on the same level as coffee and baked goods, but there is definite potential for growth and interest for the offering. He recognizes the need for even more specialty offerings in the San Francisco demographic. To proliferate this idea in both locations, Scott also offers high quality coffee beverages.

### **Catering and Custom ordering**

La Baguette offers traditional cake and baked goods customization as expected of any “true” bakery. However, Scott finds this part of the business often convoluted and difficult. “It is one thing to make a cake and customize the writing or frosting pattern. However, when making a

completely customized cake, you are stuck with an incredibly particular customer who wants to meet with the baker multiple times and micro-manage every step of the way”. This is when this side of the business becomes not worth the trouble. With customers like this, it is difficult to edge out a significant profit due to the various administrative costs associated with such a particular customer.

These types of problems are what led Scott to develop holiday specific specialties. During November and December, the bakery produces a significant amount of “yule log” style cakes. This allows the bakery to manufacture the homogenous product on a large scale and simply customize the writing on these cakes. Furthermore, the cakes can be made and frozen ahead of time without sacrificing any quality. This helps during the peak months of November and December, allowing them to focus on the daily needs of the business. These seasonal customizable cakes are a sales and profit cornerstone during such times of the year. The strategy behind it is that the customer can still feel that they are getting something truly unique, without the administrative and time costs usually associated with truly “custom” ordering. Furthermore, by targeting the busiest time of year for cake sales with a custom product, Scott was truly able to capitalize on holiday sweet spending.

Instead of having a full catering operation, Scott decided to find a niche market that has low costs, but can make a big profit. Many caterers handle business lunches, where they prepare meals beforehand and require servers to distribute the food. This requires a lot of time and money because they must put in the time to prepare quality meals and provide labor for the event. Since Scott already makes high quality sandwiches, he is capable of taking a lot of that business away from many caterers. Scott prepares the meals for the business meetings and simply drops it off that day. Due to the fact that La Baguette is already producing significant

quantities of fresh made sandwiches, the additional labor required to make the extra sandwiches is a minor added cost. Getting into this market has increased his sales, helped develop his brand, and helped bring in new customers.

### **Coffee Shop Industry**

Coffee shops are primarily for selling beverages to consumers to either enjoy at the location or easily order for takeout. There are five huge companies that hold most of this industry's market share; both in the United States and globally. International Coffee & Tea, Starbucks, and Peet's Coffee & Tea are all based in the United States, but operate internationally through licensing agreements (First Research, "Coffee Shops"). Tim Hortons holds the largest share of this market in Canada. The coffee shop industry's demand is directly correlated to consumer income, tastes and preferences. This means that this industry is more elastic. If consumers' income decreases, the demand for this industry will also decrease and vice versa. In order to help with increasing demand, a coffee shop must have good location, store traffic, and high-quality product. The main risk for this industry is that the demand rests on how well the economy is performing. The demand for the industry in 2014 is currently rising. United States spending on non-essential goods rose about .8%, and consumers' personal income rose about 4.3% (First Research, "Coffee Shops"). However the forecast for the industry is that companies will have to pay more for coffee beans in 2015. The supply has decreased because of the continuing drought. This means that prices will rise for the consumers as well, which could lower demand (First Research, "Coffee Shops").

### **Location**

The first consideration for La Baguette had to be location. In order to justify the higher prices and high end products, they must be located in an affluent area of the bay area. While this

may seem like an easy task, as the majority of the bay area is wealthy, they were truly looking for the “upper crust”. This led the group to establish La Baguette in the prominent and bustling Stanford shopping center in Palo Alto, California.

Stanford shopping center is a high end, large shopping plaza located in the heart of Palo Alto. The shopping center is owned by Stanford University, residing down the road, but is operated by a large mall management company on a long term lease from the university. The final location for the store was situated in the center of the open air mall. This location was chosen because of the space for an outdoor patio area where customers could go and enjoy their baked goods and for its proximity to the main mall plaza. The bakery is on a corner, protruding into the main event plaza at Stanford. This strategic location drives sales through the holidays as it is often a high traffic area. During December, this is where Santa Clause chooses to setup up and during Easter, the Easter bunny. Furthermore, this area of the mall is a crossroads, causing a shopper to almost certainly pass it at least once on a shopping trip.

### **Coffee**

With Scott’s unique, high traffic locations, he is able to compete with the market leaders in the coffee shop industry. On a typical weekend, the bakery can drive 1500 dollars in coffee and espresso sales each day. This translates to 5-600 cups of coffee and 2-300 espressos each day. During the weekdays, La Baguette can do about  $\frac{2}{3}$  to  $\frac{1}{2}$  of weekend sales. This offering is not only a high margin product, it is useful in attracting customers and getting them to stay. While a customer may grab a pastry and sandwich for on-the-go consumption, they may take the time to sit down with a coffee or espresso, potentially driving extra sales as they sit and enjoy their beverage. See exhibit 4.

Along with the focus of all his products, Scott tries to source the highest quality and best tasting coffee available. “For years, I have used a local coffee grinder and roaster. However in recent months he has become very inconsistent with a decline in quality”. Scott acted quickly so as not to lose regular coffee customers and has begun experimenting with a new supplier in the San Francisco store. He is testing an upscale Italian coffee brand, Lavazza, in the hopes that it may attract new customers looking for a truly differentiated, premium coffee. Lavazza beans are lighter in color than most coffee brands and tends to brew a smoother, mellower cup of coffee, something Scott thinks his San Francisco customers prefer. However the final judge on quality and taste is Scott himself, “I have to like what I sell”.

The coffee itself is brewed in 1 gallon batches to ensure freshness for each customer. He could brew in 2.5 or 5 gallon batches to save time, but refuses to do so, so as not to sacrifice the quality of their brew. For espresso, Scott operates a 20,000 dollar espresso machine as is common with high-end coffee shops. This machine, however expensive, provides an edge in the quality of espresso it is able to produce.

### **Recessionary Trends**

Since Scott took over as owner in 2001, the United States Economy has experienced two notable recessions. The first, occurring around 2001, and the second from around 2009 to the present. Throughout these recessions Scott has certainly experienced a reduction of sales. However through strategic business practices and the properties of a bakery, Scott has been able to thrive while owning the bakery. This however, is not exclusive to La Baguette, “the fresh baked goods market has maintained a steady, if modest, growth rate over the past five years. Sales of fresh baked goods in retail outlets topped \$16 billion in 2009, a growth of 4.2% from the previous year” (Market Research, Fresh Baked Goods in the U.S., 3). See exhibit 5.

First, it is important to discuss the properties that Scott believe his bakery possess. He has noticed relatively unchanged raw sales due to recessions across his ownership. Scott believes this is because of the idea that baked goods provide a feeling of “affordable luxury” to his customers. That is, even during times of economic downturn, people still purchase baked goods for their “comfort food” attributes. “In difficult economic times, Americans seek out the small pleasures they can afford, and sweets are one of them” (Market Research, Fresh Baked Goods in the U.S., 16). They can act as a treat or pick me up during difficult times. This, in combination with the location of the store, The Palo Alto area is well “padded” to recessions, has allowed him to stay prosperous in a difficult economy.

However, this is not to say Scott has not noticed a change in customers served per day. “Before the 2001 recession, we would serve 15-1600 customers a day. After, the numbers dropped to 1000-1100 a day”. This drop in customers has never recovered from pre-2001 levels, yet Scott has been able to not only keep sales on par, but grow them from about 2 million to 3 million dollars in gross sales by 2014. This million dollar sales increase, even with a reduction in daily customers, is due to Scotts unique eye for developing high margin, value added products that sell consistently.

### **Moving Forward**

Outside of the San Francisco and Palo Alto locations, only one other La Baguette is in operation. This store resides in a mall in Los Angeles, California. This location is operated by a business owner whom Scott has engaged in a licensing agreement with. She produces some of the breads onsite, while many of the pastries and cakes are shipped from Scott’s Stanford location a few times a month. This agreement presented a logistical problem in itself, how to get cakes to Southern California intact without a loss of quality. The first step was to freeze



everything beforehand. Many of their cakes and pastries are frozen anyway as they are easier to decorate and transport when this is the case, so it was no problem to do this for the ones that would be sent down south. However, there was still the problem of ensuring the cakes would not be crushed during the 6 plus hour drive. This led Scott to seek out a new packaging system, able to transport cakes and other baked goods with minimal loss. He is able to package the frozen goods inside specialty boxes in a way making them safe for transport in a refrigerated truck. Scott is a fan of this sort of an expansion strategy for the business. It allows him to control quality on many of the value added products, but still allows the bakery to make some fresh breads that customer's desire. It is of little trouble to make more baked goods when they are already making them and this translates to, essentially, money in his pocket. Additionally, this agreement provides for more control over the satellite business, thus ensuring preservation of the high quality La Baguette brand. Although this is a completely viable solution for expansion and is one that is currently in place, for the time being, it is not one that Scott is currently looking to further pursuing.

Another expansion strategy Scott is more closely considering is opening small, express, versions of La Baguette in some of the many airports in California. This strategy is one that he is considering because it would require minimal costs to run an operation like this. Specialty products with high demand could be brought in from his other "full sized" locations to stock the small kiosks. This, in addition to coffee and beverage options, would drive what he believes could be solid sales revenue. This sort of option is not without its own hurdles, as it is often a bureaucratic conundrum to procure space in an airport behind security.

As Scott ponders the future of La Baguette, the possibilities seem almost endless as long as a proper location can be secured and he can continue to provide the high quality services that have come to define the La Baguette brand.

Exhibit 1:

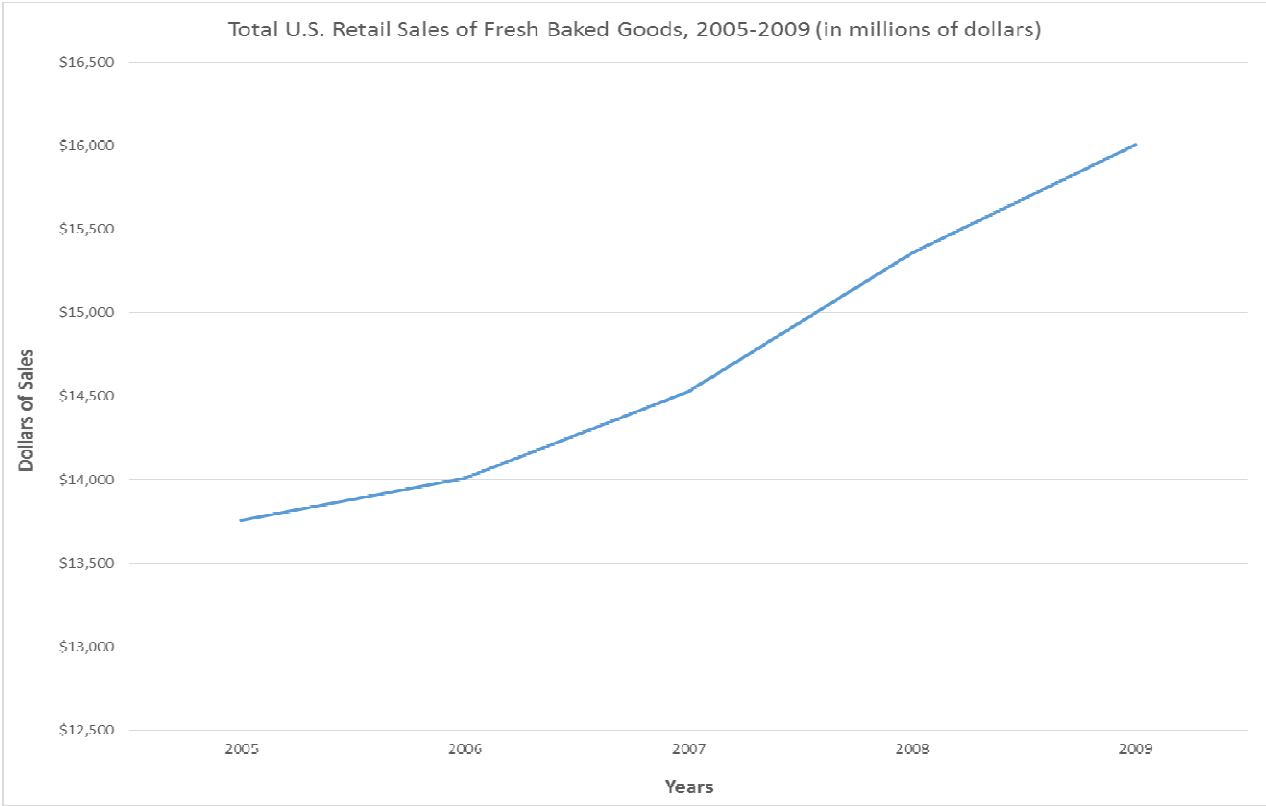


Exhibit 2:

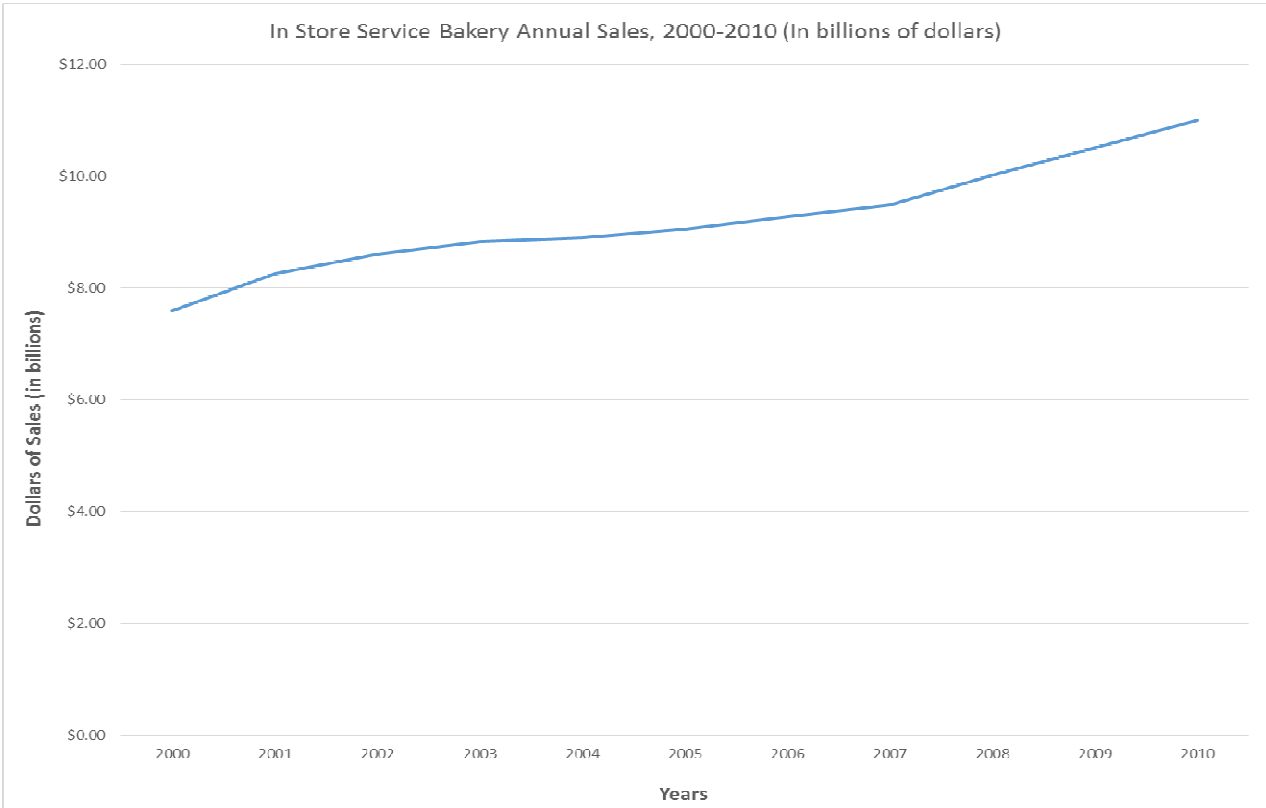


Exhibit 3:

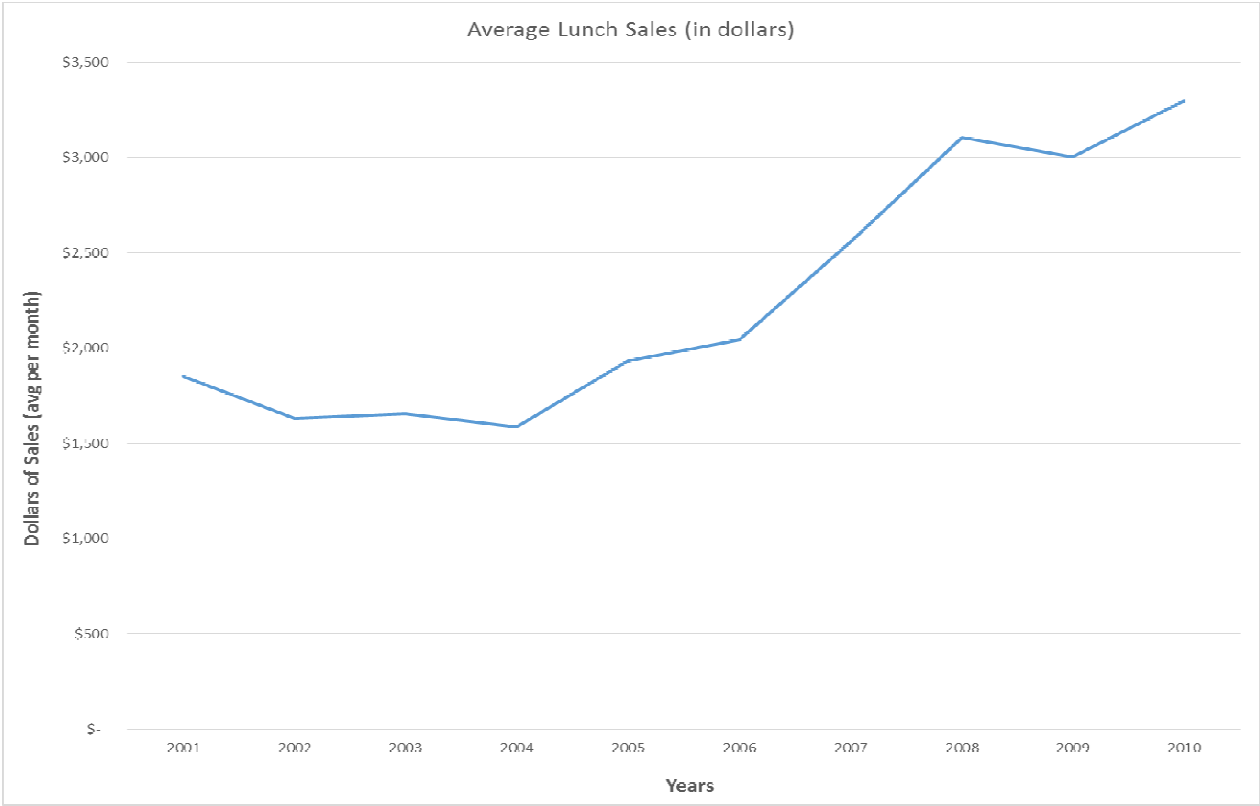


Exhibit 4:

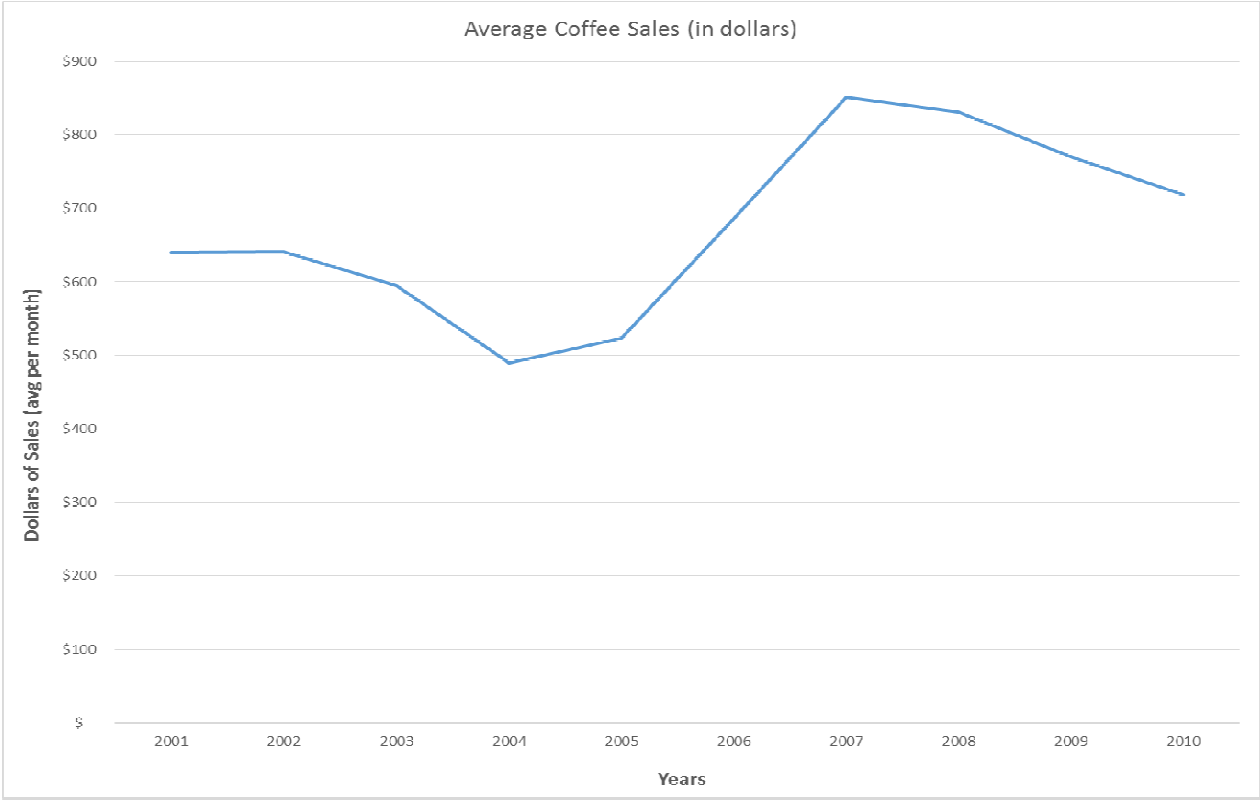
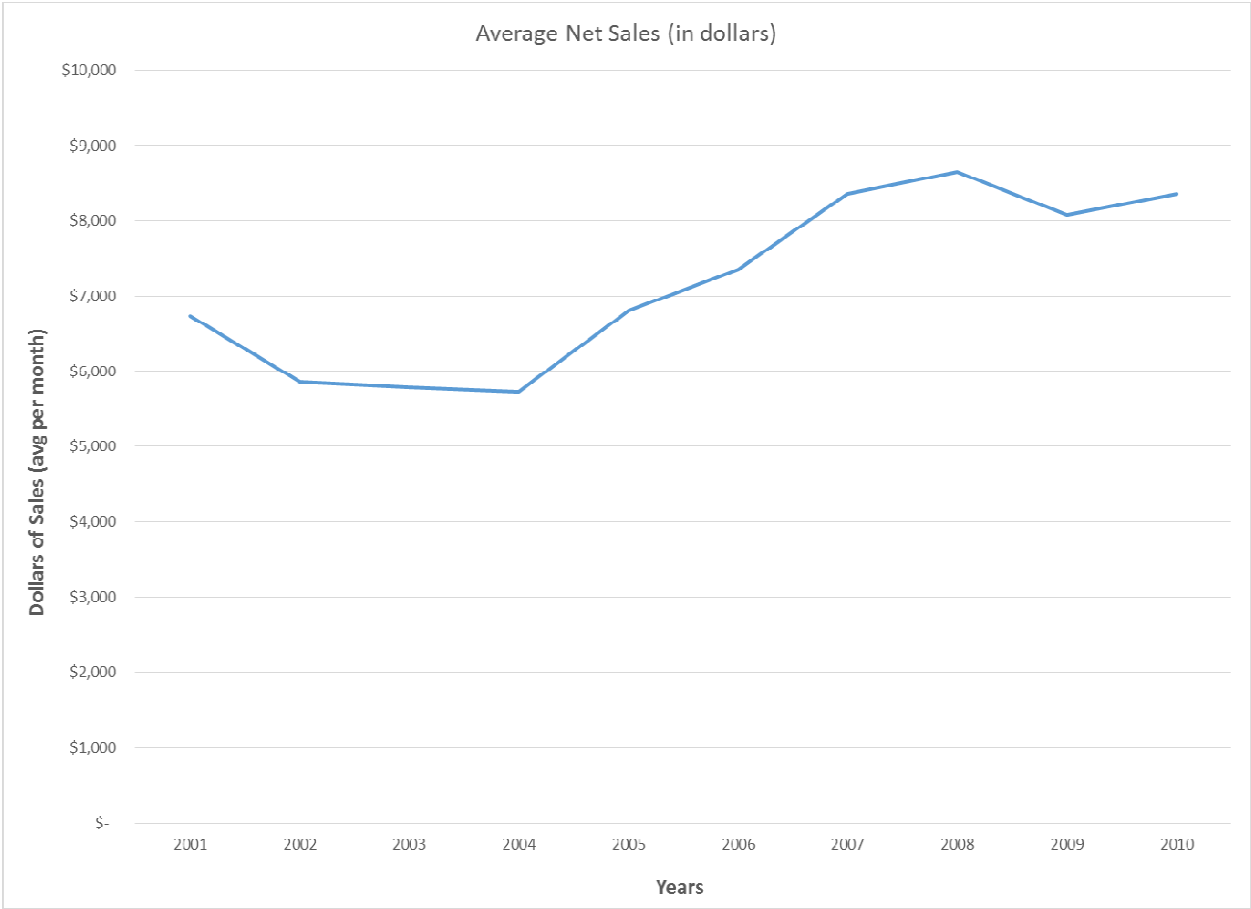


Exhibit 5:









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