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A Sweet Future for Sugar Makery: A Deeper Dive into Small Business Consulting

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Case Study

A Sweet Future for Sugar Makery: A Deeper Dive into Small Business Consulting

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University of Nebraska at Omaha | University Honors Program

This case study investigates a local candy store in Glenwood and Council Bluffs Iowa. Processes, consistency and concise planning promoted the rapid growth of Sugar Makery into two locations in three short years. Results from the analyses indicate that the main problem facing Sugar Makery is sustaining its differentiated strategy from new industry entrants, key recommendations to sustain its success are presented. Every company has its own strengths, weaknesses, opportunities, and threats. The key is identifying each to be able to capitalize on competitive advantages, mitigate the damage done by weaknesses, take advantage of opportunities and create plans to avoid threats. Overall, the thesis serves as a complete analysis of Sugar Makery and offers a recommendation to strengthen its competitive position and amplify the company's unique products and services.

Keywords: Business administration, corporate & business strategy, MGMT 4480, Business Capstone Course, Sugar Makery

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Introduction

This paper investigates the strengths and weaknesses of Sugar Makery as well as external trends of the industry to discover the strategic problem facing the company to provide recommendations to help strengthen Sugar Makery's competitive position and embrace its unique products and services.

Company Background

Sugar Makery was founded in 2017 by Alexis and Malcolm McCue (Appendix A, Figure 1). The first retail store is in a quaint log building on Sharp Street in Glenwood, IA (Appendix A, Figure 4) which sells gourmet popcorn, a chocolate case full of fudge and other chocolate candies, bulk and individual candies, custom cakes, ice cream, soda and other similar products. Alexis was inspired by her late father 'Big John,' as he became interested in candy making as a hobby during his battle with cancer. Alexis spent years after her father's death making candies and taking them to craft fairs to sell the candy and treats while still working a corporate job. After years of contemplating her future, the decision to move away from family to continue Alexis' corporate job led to the opening of Sugar Makery on August 17, 2017.

After two and a half years of success in the Glenwood market with continued growth, Sugar Makery expanded to Council Bluffs on March 15, 2020 (Appendix A, Figure 3). The Sugar Makery in Council Bluffs is in a high-traffic location in a newly updated and functionally optimal building on Conifer Lane and is still under the Sugar Makery brand. However, they formed a new LLC and brought in KRS Corporation for a partnership to bring in a bakery component to the store in Council Bluffs. KRS Corporation is owned by Katie Murphy. Katie has over a decade of experience in the dessert industry as an owner and pastry chef. Adding a

store in Council Bluffs (62,355 population) versus Glenwood (5,326) has the potential of tapping into a vastly different buyer pool and significant growth potential.

Mission

The mission of Sugar Makery is engrained into the owners and employees to create an experience for the customers that is second to none. Sugar Makery does not currently have a written mission statement, but rather a guiding principle that began with Alexis and is passed down to all employees: “Sugar Makery strives to create an unparalleled customer experience by bringing back memories from childhood while making new memories for generations to come.” Everything the company does is driven with this mission in mind.

Employees

Between the two locations of Sugar Makery brick and mortar storefronts, the company has 42 total employees. Six of those employees are full-time and the other 36 are part-time. Part-time for Sugar Makery can land anywhere from 10-30 hours per week dependent upon the individual employee. Sugar Makery currently has three managers and two assistant managers along with the two owners in Glenwood (Alexis & Malcolm) and three owners in Council Bluffs (Alexis, Malcolm and Katie). The employee count is quite substantive for the size of the business, but with several high school workers, the employee count has to raise in order to obtain coverage for all the needed shifts with ever-changing schedules of high school students.

The Challenge

Sugar Makery has focused its business strategy on differentiation. At the core of the business, Sugar Makery strives to create an atmosphere in the store that is second to none, and they pride themselves on being the happiest place on earth – possibly only behind Disney World. Everything they have created, and all decisions have been made with their customer experience being the most important aspect. At this point in Sugar Makery's business venture, the company has seen growing profits and continued potential. Unfortunately, it is unlikely that this will be sustained indefinitely, as there are many competitors in the industry and the novelty and differentiation is weakening. Low barriers to entry allow more competitors to enter the market and compete with incumbents. Additionally, low barriers to imitation has a negative effect on the industry as a whole.

Sugar Makery has continually pursued differentiation as a strong competitive advantage; however, the products and resources have not provided a sustained competitive advantage, only a temporary advantage. One strong and lasting competitive advantage that Sugar Makery has over its competition is its unmatched customer service and whimsical store atmosphere. The strategic group map is an estimation of industry positions based on product offerings and ...

External Analysis

To properly identify the strategic problem facing Sugar Makery, a detailed analysis was completed in order to examine the opportunities and threats present in the candy store industry. Several forms of analysis were done including Market Trends, an Industry Analysis, PESTEL Framework, Porter's Five Forces and Strategy Canvases (Appendix C).

Market Trends

Overall, the market has seen approximately three percent growth year over year other than in 2020 due to the unforeseen circumstances. In 2020, industry revenue was 9.8 billion in the specialty food store market in the United States.

PESTEL Framework

The specialty food store industry has several opportunities and threats through different lenses:

- Political: The COVID-19 pandemic wreaked havoc on the already declining brick and mortar retail industry. According to Statista, nearly 100,000 stores will be forced to close by 2025. Innately, this is an indication of the severity of the pandemic not to mention the strain that was put on company resources as a result. This could prove to be especially detrimental to firms in this industry, as the firms already often times operate under decreasing margins due to scale and costs.
- Economic: Earlier in this report, employees were highlighted as a point of interest, as the impending legislation to raise minimum wage could have a lasting and damaging impact for firms in this industry. For example, if the minimum wage was raised to \$15 per hour, companies would likely be forced to lay off many of their employees and would have to hire fewer, more experienced employees and let go of younger or high

school aged employees. Additionally, the raising wages would further lower margins and lead to the eventual closing of more stores in the specialty food industry.

- Sociocultural: The next threat to the industry is the changing ideology and health conscientiousness. As more information is made readily available about the health risks associated with sugar and corn syrup, consumers could become more discerning about the health risks of the products that are offered by these firms and decide to avoid the store all together and search for a healthier alternative. Another impact for this industry is the push to shop local. According to Statista, 91 percent of consumers shop at local small businesses at least once a week. This staggering amount of local support has helped the specialty food industry continue to grow.
- Technological: Many of the firms in this industry use social media to promote their businesses and create an interactive experience with their consumers. 48 percent of respondents shop locally due to superior customer service compared to large businesses, according to Statista. As technology continues to improve, these firms have the unique ability to stay connected with their consumers and make lasting relationships that will pay off tenfold.
- Ecological: One ecological implication is the disposal of waste from expired inventory and packaging. The specialty food industry is no different than the grocery industry as a whole, as there are losses from inventory that must be thrown out, and the deliveries are made with excess cardboard, wood and plastic that has to be recycled or put in a landfill.

- Legal: The changing health and safety codes as a result of the COVID-19 pandemic have created new obstacles for firms in the industry, and they even caused many of the businesses to shut down for an indefinite period of time during the height of the pandemic. This legislation and these regulations are meant to keep consumers safe and to keep the pandemic from spreading exponentially.

Industry Analysis

Porter's Five Forces

This analysis provided a framework to thoroughly examine some of the opportunities and threats within the industry. One notable threat to the industry is the high number of substitutes that are readily available. Some of these substitutes are driven by the changing sociocultural environment, as people are becoming substantially more health conscious.

This high availability of substitutes and increase in health consciousness has led to a high threat of rivalry overall. There is absolutely minimal cost, time or effort that could persuade the consumer to visit one specialty store over another. The industry is currently operating in monopolistic competition with stores competing with each other and no large industry players – just many small competitors. The importance of differentiation is paramount, as these trends continue to increase competition. Overall, these industry trends lend itself to decreasing returns for companies in the specialty food store industry, and there is an increasing need to strengthen competitive advantages and focus on differentiation.

There is a generally linear relationship between industry revenue and per capita disposable income. With changes in per capita disposable income, the revenue does not seem to change substantially (Appendix B, Figure 6). There is a dip in the industry revenue in 2017 and 2020. There was a dramatic decrease in 2020 because of COVID-19. In future predictions, it

appears that both consumer spending and industry revenue will plateau through 2025. This causes concern for the industry, and the need to differentiate is even more important for future success in the industry.

Summary of Opportunities and Threats

Overall, the opportunities and threats of the industry

Internal Analysis

In order to determine Sugar Makery's key resource and capabilities, I did an extensive analysis of the company and completed a VRIO analysis. The full VRIO analysis can be found in Appendix C, Table 4. There are two resources and capabilities that create a sustained competitive advantage:

1. Product Recipes
2. Store Environment

Additionally, there are three resources and capabilities that create a temporary competitive advantage:

1. Niche Product Mix
2. Merger with KRS Corporation
3. Branding

From these two lists, it is clear that the majority of Sugar Makery's advantages come from the proprietary information and store environment that was created by the original owners. The merger with KRS Corporation to include a bakery component into the location in Council Bluffs legally cannot be duplicated, yet it is easily substitutable. Currently, Sugar Makery has a competitive advantage; however, Sugar Makery needs to take the merger from a temporary competitive advantage to a sustainable competitive advantage.

Competitive Advantage Assessment

With every customer who walks through the door at Sugar Makery, there are two things that keep them coming back time after time. Of course, those coincide with Sugar Makery's sustainable competitive advantages. The mouth-watering aroma from the candies, popcorn, and sugary treats draw people in, and the magical experience in the store keep bringing people back.

From a business level, Sugar Makery focuses on differentiation over cost leadership. Sugar Makery differentiates from its competitors through its unique and coveted locations, its magical store atmosphere and its unique product offerings. As evidenced by its 4.8 out of 5 stars on Google reviews, Sugar Makery is setting the bar for others in the industry to follow.

Competitor Analysis

To best grasp the necessary recommendations, a complete competitor analysis was required via a Strategic Group Assessment (Map).

Strategic Group Assessment

After a careful assessment of the competitors in the industry, the Strategic Group Map (Appendix B, Figure 8) was created to compare Sugar Makery to its competitors. It was concluded that Sugar Makery has the second-best diversity of product offering but the most expensive products in the industry. The competitors in the industry tend to offer less products for a cheaper price, as they are able to reduce costs by keeping product SKU's lower than Sugar Makery.

- Hollywood Candy
- Northwoods Cheese Haus
- Eileen's Cookies
- It's All About Bees
- Mark's Pantry & Bottle Shop

Recommendations

Sugar Makery should integrate various strategic campaigns to enhance their differentiation strategy and leverage the merger with KRS Corporation to the highest extent. The recommendations are as follows:

- Raise net income
 - Reduce soda SKU's to 50 or less to reduce inventory, holding costs, storage, shipping, and increase overall net income.
 - Invest in patents and consider licensing recipes to production kitchens as a separate income stream.
- Create a seamless HR system
 - Transition payroll and accounting systems to QuickBooks for ease of recording all information between employees, finances, accountants, etc.
 - In addition to performance-based raises, create a performance-based bonus to incentivize employees through achievable benchmarks.
 - Create legal documents such as a non-disclosure, non-compete and continue to implement the social media guidance policy.
- Leverage merger to enhance differentiation strategy
 - Form a non-equity strategic partnership with the Glenwood Community School District (GCSD) and Council Bluffs Community School District to facilitate growth and increase exposure.
 - Give back to GCSD through donations that are readily visible in the public eye

These recommendations can enhance Sugar Makery's differentiation and create a more competitive position for the company in the specialty food store industry.

Implementation

One of the most important financial benchmarks for continued growth is net income, and for Sugar Makery, increasing net income is a necessity in order to continue on its path of rapid growth. Reducing the soda SKU's to 50 or less would need to happen immediately, but this would be a change that would take place over time since the inventory would have to be sold of the current soda first; however, the policy/plan would be enacted immediately. In August 2021, Sugar Makery's owners should begin the process of establishing patented recipes for its proprietary foods. In January 2022, Sugar Makery should begin researching production kitchens to scale their production and create additional revenue streams. These three steps could drastically change the net income and exponentially grow Sugar Makery into one of the top competitors in the industry.

In June 2021, Sugar Makery's owners would consult with their accountant and plan the transition to QuickBooks for payroll, expense tracking, etc. if and only if the Point of Sales system can be easily integrated to create a "one stop shop" for the backend of the business. From a Human Resources perspective, a new policy will be established effective July 2021 to create a performance-based bonus to incentivize employees through achievable benchmarks. Such benchmarks are at the discretion of the owners, but may include sales, product made, employee morale, employee attendance, etc. Finally, no later than October 2021, the owners need to hire an attorney to create legal documents such as a non-disclosure, non-compete and continue to implement the social media guidance policy. These legally binding documents would drastically increase the barriers to entry for other competitors in the industry and would protect Sugar Makery in the event of malfeasance by current, future or past employees.

In August 2021, Sugar Makery would establish a relationship with Glenwood Community School District (GCSD) and the Glenwood Booster Club to be a preferred vendor to sell products at high school sporting, arts, and academic events. This partnership would greatly increase Sugar Makery's exposure in the community and create an additional revenue stream for the Glenwood location. After a test period at GCSD, Sugar Makery would expand its reach to the Council Bluffs Community School District in August 2022. This would bring more attention to the newer store in Council Bluffs and also increase the exposure to a much broader market with fantastic potential for growth. Finally, by December 2021, Sugar Makery should create more focused donations to the community by establish the "Sugar Makery" scholarship for high school seniors, donate/advertise at school sports, arts or academic events, and continue to support the school through profit sharing measures.

Following these implementation steps of the recommendations, Sugar Makery will effectively and efficiently strengthen its competitive position, continue to grow and raise barriers to entry.

Future Potential

Over the next five years (Appendix B, Figure 9), the specialty food stores industry is expected to continue to grow, as consumer tastes continue to grow into specialty foods. Through the pandemic and coming out the other side, Americans will return more to life as "normal," and this should increase the per capita disposable income and the specialty food stores industry will see continued growth and success. Additionally, unemployment rates should continue to decrease and bring more consumers to the market. The overall success of the individual firms in the industry will be based on the variety of products offered and consumer demand. Furthermore,

according to a US Industry report, American are increasingly choosing snacks over large meals throughout the day which should lead to more revenue generated for Sugar Makery.

Concluding Remarks

In conclusion, Sugar Makery started off in 2017 as a proof of concept, and the concept has been extremely successful during the first three plus years in the specialty food store industry. As the industry continues to become more saturated with competitors, the competition will threaten Sugar Makery's success. However, Sugar Makery has the available resources and competitive advantages to differentiate themselves from their competitors and position themselves for success. But, it is dependent on Sugar Makery fully taking advantage of their core competencies by embracing the changing political and economic factors and creating new opportunities for growth. After a thorough analysis of the internal and external analysis, the recommendations to increase net income, create a seamless HR system and leverage merger to enhance differentiation strategy became the focus of the path forward. If Sugar Makery implements these three recommendations as outlined in the report, the company will build a strong financial foundation, cohesive group of employees and connection with the community unmatched by its competitors, and they will be positioned for success for many years to come.

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Appendix A



Figure 1. Sugar Makery's Original Owner



Figure 2. Sugar Makery's Logo



Figure 3. Sugar Makery. Council Bluffs location.



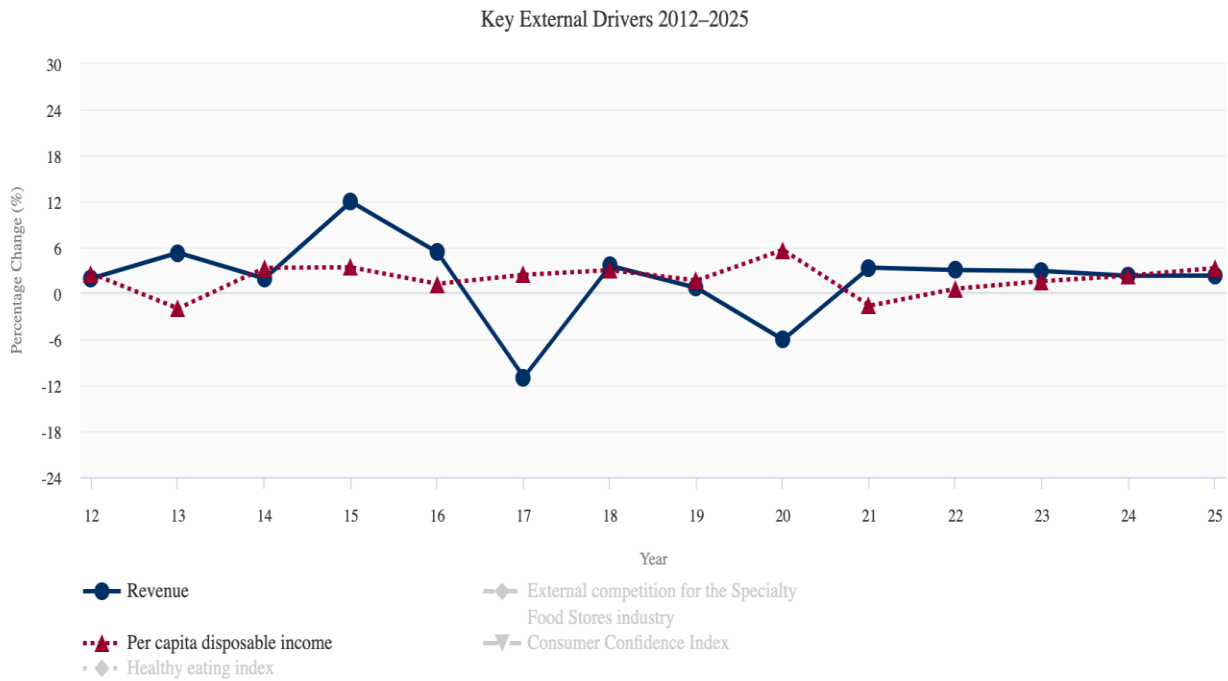
Figure 4. Sugar Makery. Delivery Truck & Exterior Glenwood Location



Figure 5. Sugar Makery. Interior Glenwood location.

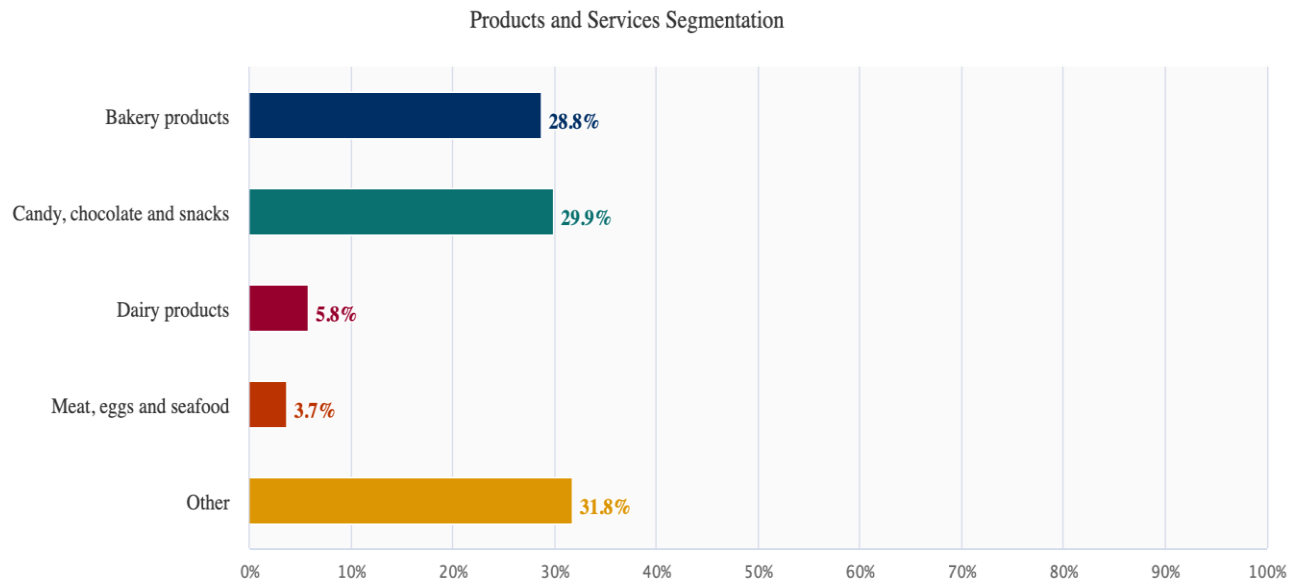
Appendix B

Figure 6. Key External Drivers.



Specialty Food Stores
Source: IBISWorld

Figure 7. Products and Services Segmentation.



2020 INDUSTRY REVENUE

\$9.8bn

Specialty Food Stores
Source: IBISWorld

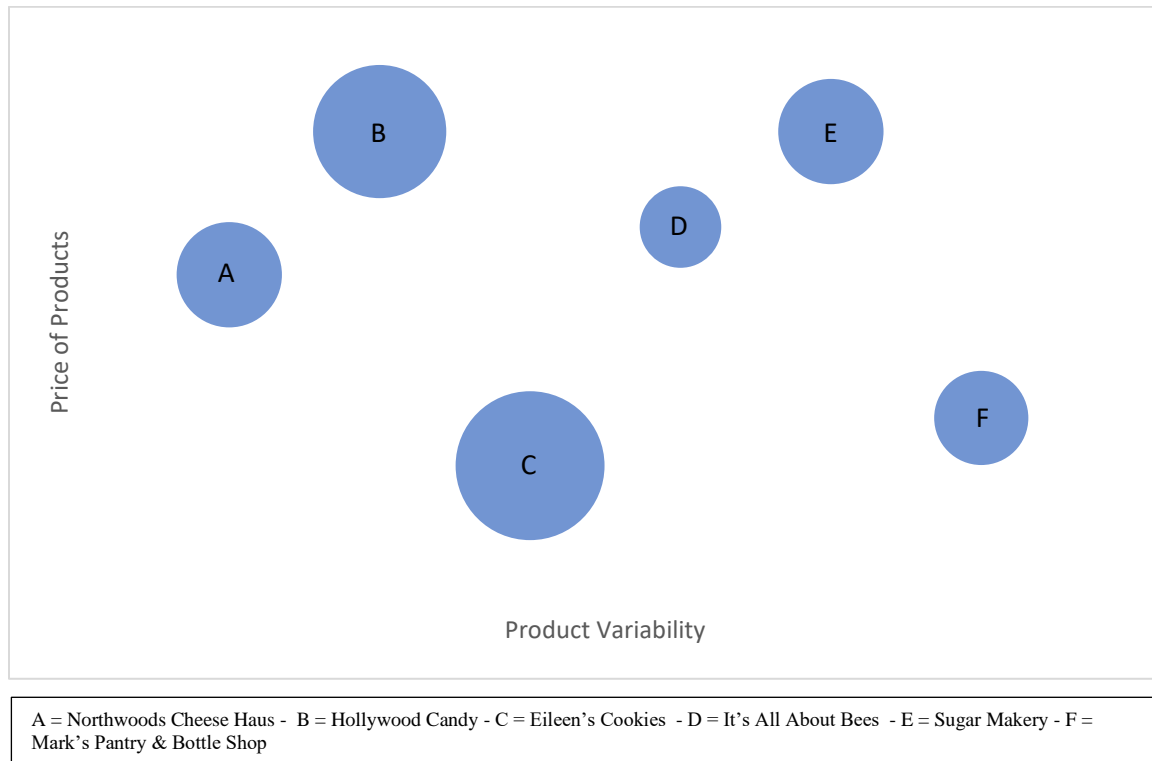
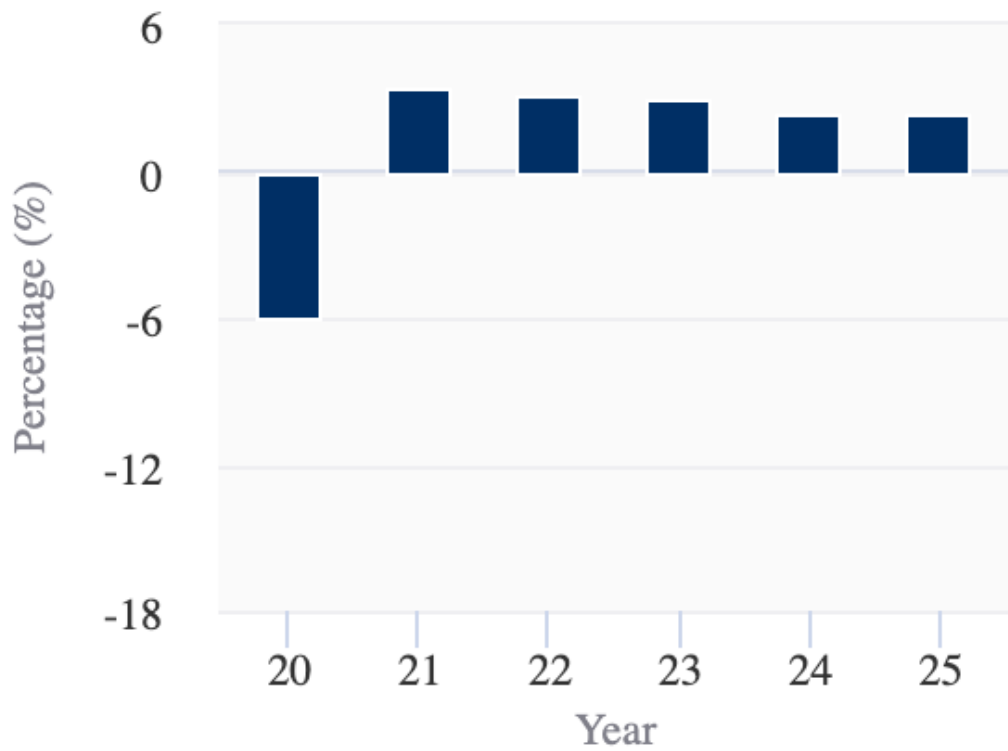
Figure 8. Strategic Group Map

Figure 9. Industry Outlook 2020-2025.

Industry Outlook 2020–2025



Specialty Food Stores
Source: IBISWorld

Appendix C

Table 1. External Analysis: PESTEL, Macro Environment.

Political	Economic	Sociocultural	Technological	Ecological	Legal
Examples:	Examples:	Examples:	Examples:	Examples:	Examples:
2020 Election	Raising minimum wage	Health-Conscious Consumer	Advanced POS system tracks sales by category	Waste from expired inventory and packaging	Changing health and safety codes as a result of the COVID-19 pandemic
COVID-19 Pandemic	Low barriers to entry	Emphasis on shopping local (most candy stores are local businesses)	Use of social media (Facebook, Instagram, Twitter, YouTube, etc.) to market new and existing products		Corporate tax changes with Biden Administration
Potential carbon neutral legislation (delivery truck)	Saturated market for candy stores	General increase of online shopping	Built in online ordering functionality via the company website allows for easier shopping		COVID-19 pandemic loan and assistance programs
	Growing household income allows for more discretionary income to be spend on luxury goods				

Table 2. External Analysis: Porter's Five Forces, Macro Environment

Threat of Entry	Power of Suppliers	Power of Buyers	Threat of Substitutes	Threat of Rivalry
Economies of Scale MEDIUM	# of Suppliers HIGH	# of Buyers HIGH	Availability of Substitutes HIGH	Industry Structure PERFECT COMPETITION MOVING TO MONOPOLISTIC COMPETITION
Network Effects LOW	Importance of industry firms MEDIUM	Standardization of Products LOW	Customers' Switching Costs LOW	Industry Growth MEDIUM
Customers' Switching Costs LOW	Industry Firms' Switching Costs LOW	Buyers' Switching Costs LOW	Price and Performance of Substitutes HIGH	Degree of Strategic Commitments MEDIUM
Capital Requirements	Degree of Differentiation of Suppliers' Products LOW	Threat of Backwards Vertical Integration LOW		Exit Barriers MEDIUM
Government Policy MEDIUM	Threat of Forwards Vertical Integration LOW			
Threat of Retaliation LOW				
Threat = HIGH	Threat = HIGH	Threat = HIGH	Threat = HIGH	Threat = HIGH

Table 3. Internal Analysis: VRIO Analysis

Resources & Capabilities	Valuable	Rare	Barriers to Imitation	Organized	Substitute	Competitive Implications (SCA, TCA, Parity, Disadvantage)
Warehouse	Y	N	N	Y	Y	Parity
Product Recipes	Y	Y	Y	Y	Y	TCA
Niche product mix	Y	Y	N	Y	Y	TCA
Quality Control	Y	N	N	Y	Y	Parity
Store Environment	Y	Y	Y	Y	Y	TCA
Low operating costs	Y	N	N	Y	Y	Parity
Product prepared ahead of time	Y	N	N	Y	Y	Parity
Changing menu items	Y	N	N	Y	Y	Parity
Merger with KRS Corporation	Y	Y	Y	Y	Y	TCA
Product Diversity	Y	N	N	Y	Y	TCA
Branding	Y	Y	N	Y	Y	TCA