**CASE 13 AMY’S BREAD**

Amy glanced at the clock and moaned. It was 3:30 a.m., time to get up and head to her Manhattan bakery, but she hadn’t slept all night. She had a big decision to make. “No,” she muttered to herself; she had a multitude of big decisions to make.

Amy muttered to herself, “There are already so many days when I feel stretched past the breaking point. There are so many demands.” Amy mentally ticked them off: Ensuring consistent quality, scheduling and training staff, ordering supplies, developing new recipes, contacting potential customers, collecting from slow-paying clients … the list was truly endless. Amy wondered, “If I decide to expand, can I do it successfully? Can I find another trustworthy manager, like Toy Kim Dupree, to help me manage the staff and maintain bread quality? Can I find expansion space in Manhattan? Should I close our current location and expand to a much larger space, thus eliminating the need to manage two locations? Should I look for a location for my wholesale production, or a space that would provide both retail and wholesale opportunities?” There was so much to decide. Right now though, Amy’s dough starters were waiting, as were her employees. She had to get up and face another busy day at her bakery.

Amy’s Bread, founded in 1992, served about 50 wholesale customers, including some of the finest restaurants, hotels, and gourmet food shops in Manhattan. Amy’s Bread also had a waiting list of more than 30 wholesale customers from other quality restaurants, hotels, and shops.

Amy thought, “I really want to meet their needs and accept their business, but any further production expansion in my existing space is impossible. I know I can’t produce one more loaf without hurting bread quality, which is absolutely unthinkable! We are already working three shifts, and there is no more room for additional equipment.”

Amy and her assistant manager, Toy Kim Dupree, had commiserated: “The bakery is stretched to the limits. Dough production ranges from 1,800 to 3,000 lbs. of bread per day, well over capacity for just 1,300 square feet.” As Toy described, “We are like sardines making bread. Surviving in these close quarters is so difficult. Not only do we produce all of the wholesale and retail bread in this one location, but we also store ingredients and have a small office.”

Amy worried that some of the customers on her long waiting list were on the brink of turning away. But, Amy thought, “Am I really ready to tackle a major expansion? On the one hand, I have worked so hard to make my dreams a reality, I can’t imagine stopping now. But, can I handle an expansion and larger ongoing operations? Financially? Mentally? Physically?” Amy remembered Toy’s recent comment: “Amy’s Bread is finally turning a profit.” The thought of an expansion and additional debt was very scary.

**AMY’S PERSONAL HISTORY**

Amy was born and raised in Minnesota, where her father was a high-level executive for Pillsbury and her mother was a gourmet cook with a family reputation for baking fresh breads. As a child, Amy remembered Page 538coming home from school to the smell of her mother’s homemade breads wafting from the kitchen. After high school, Amy earned a degree in economics and psychology. She then moved to New York in 1984 to try her luck in the Big Apple.

Amy soon found that an office job was not for her, and that she longed to pursue a more creative career. She talked endlessly to her managers and coworkers about her dream of opening her own business. It was then that Amy began to solicit support and promises of financial backing if she were ever to start her own business. After 3 years, Amy left her white-collar marketing position to pursue her dream. She decided to attend the New York Restaurant School for culinary training. After graduating from their program, Amy landed a job as a chef for one of New York’s most highly acclaimed French restaurants. After 2 years of very challenging work and longer hours than her marketing job, Amy escaped to Europe. Amy said, “It was there I discovered my true passion: bread baking.” She backpacked around England and Italy and eventually settled in France, where there are strong traditions of bread baking. Amy worked at French bakeries in three different towns, spending a month at each. “When I returned to New York in 1989, I was brimming with ideas and excitement about opening my own bakery,” Amy recalled.

Amy spent the next 2 years as a pastry chef and bread baker for another top New York eatery. As Amy worked, she simultaneously developed recipes and business plans. Amy dreamed that someday soon she would be working for herself.

**HISTORY OF AMY’S BREAD**

Amy knew that opening a bakery in New York would be extremely challenging. First, it was a highly competitive industry with low wholesale profit margins. Second, space in New York was always at a premium, and renting a desirable location was going to be extremely expensive. Third, she discovered that banks would not loan her money. Banks viewed bakeries as restaurants—far too risky an investment without a prior proven track record. Amy remained undaunted. She was determined to achieve her goal of running her own business, one that sold a million dollars worth of beautiful breads each year made by employees who took pride in their work and were rewarded for their efforts. Amy had clear goals: “I wanted to be famous for making a great product and for creating a good place to work. I did not care a lot about being rich. I just want to sell beautiful breads from a cute, cozy place.”

In 1992, armed with some savings, a loan from her parents, private loans from her former colleagues in the marketing profession, a good business mind, and a very determined spirit, Amy took the big step. She quit her restaurant job and opened Amy’s Bread on Ninth Avenue in a tough area of Manhattan known as Hell’s Kitchen. The space she found was an old storefront that had been a fish market and had been empty for 5 years. Although only 650 square feet, it was still expensive, but it was the most affordable space she could find. With the help of family and friends, it still took 6 months to renovate the space, including plastering and painting. Amy installed equipment, hired and trained staff, developed a customer list, and began production.

**CURRENT OPERATIONS OF AMY’S BREAD**

**Personnel**

Amy’s Bread started with a staff of six dedicated employees who scrubbed up used equipment, built shelves, and lent a hand as needed. Amy recalled, “I taught them bread making techniques, and then, with little idea of what was to come, we opened for business.” Amy’s Bread sometimes used newspaper advertisements for attracting employees, but most responded to a “Now Hiring” sign in the bakery’s window. Assistant manager, Toy Kim Dupree, described reasons employees came to work for Amy’s Bread. “Some were interested in bread baking, but many came because we offered a 5-day workweek while many bakeries and restaurants have a 6-day workweek. We also worked hard to create a happy, open, and friendly environment. It’s what we wanted for ourselves and what we hoped to create for our employees. Our aim was to have a perfect product, but we recognized that we were dealing with human beings. Anyone who is too intense does not fit in well here. We don’t have any room for prima donnas. We also tend to pay more than our competitors.”

A typical employee would begin in the shaping area, working to form the bread loaves. From there, they can move to baking the bread and, finally, to the mixing of the dough. Toy described a key management challenge as “helping employees to beat the boredom of their repetitious work.” Toy said, “Our most successful employees have a positive outlook, are dependable and conscientious, think on their feet, and interact well with their coworkers. We have no cubicles here!” Employees suggested solutions to management issues, with Amy having the final say. As Toy Page 539described, “We all put our heads together, bringing in our separate areas of expertise. Our goals were to produce very high-quality breads by hand, pay our employees a decent living wage, and ensure that our customers get good value for their money.”

Over the years, Amy’s Bread had experienced very low turnover. Retail staff started at $8.00 an hour and baking staff at $10.00. In fact, Amy’s Bread’s lowest paid employees were the cleaning staff, and they started at $7.50 an hour, well above minimum wage. Benefits were available to employees who worked more than 20 hours a week, and employees who were with the company longer than a year were eligible for a 401k plan. The majority of her employees (88 percent) were minorities for whom English was a second language. Training was often done by demonstration. Payroll expenses were extremely high, representing over 50 percent of sales. With a handmade product, it was difficult to attain any economy of scale concerning labor. New sales led to additional payroll expense.

Amy reminisced, “The first year was by far the toughest. We learned to handle dough in stifling hot weather. We had to keep going on only a few hours of sleep a day and get by without money when our customers were slow to pay. Our space was so narrow and cramped that we struggled to get racks of dough through it. However, sales were good, and sometimes all the bread was sold by noon!”

**BREAD PRODUCTION**

Amy surmised that “practice and patience were the keys to perfect bread, and all successful bread started with quality ingredients.” Amy explained, “Dough batters are very challenging. They can be too dry, too wet, not rising quickly enough, or rising too quickly. Many external elements can affect the dough, including the air temperature, the temperature of the water, the timing of each step.” One of the most critical aspects of the success of Amy’s Bread was her devotion to sourdough starters. The starters are essentially flour, yeast, and water. Amy quipped, “The starters are the miracle ingredient that gives life to the bread.”

Amy mused, “A baker’s work is really never done. The demands are constant. The dough keeps rising and must be carefully watched throughout the process. The bakery operates 24 hours a day, 7 days a week. Wholesale customers want bread every day. On weekends and holidays, their orders double!” Amy’s Bread had a staff of 32 bread mixers, shapers, and bakers by 1998.

At about 5:00 a.m., the mixing began. Amy described the process: “We fill a large mixer with flour, water, the all-important sourdough starter, salt, and yeast. Before long, the mixer’s fork kneader pulls and stretches a mass of supple dough. The dough is put aside to rest and rise slowly at a cool temperature and then divided into portions to be shaped and baked.”

Every step was physically demanding, and workers got sore arms and shoulders and very, very tired legs and feet. At noon, the shaping of the loaves for the next day’s orders began. Racks of rising dough were cut and formed. This was a totally manual process, as each loaf must be hand-shaped. The bread was then left to rise again at a cool temperature so it can ferment. Finally, the loaves were baked in the early hours of the morning. After the bread was baked, it was cooled and packed for delivery by an Amy’s Bread truck. Amy commented, “Smelling the bread as it comes out of the oven, seeing its golden color, feeling its texture, and enjoying its delicious flavor certainly contribute to job satisfaction!”

**Customers**

Amy’s original business plans called for providing breads wholesale to restaurants and hotels. She had a loyal customer in a former employer and a list of interested customers. Her location was really not the best for retail traffic. Retail business would simply be a sideline—she would sell excess loaves to people who wandered in to check out the bakery.

Slowly, but surely, Amy began earning a city-wide reputation for high-quality, innovative yet consistent products. Her signature bread, semolina with golden raisins and fennel, brought Amy’s Bread lots of attention. By 1996, she was preparing about 600 lbs. of dough a day just for her semolina, golden raisin, fennel bread. Her product line included approximately 50 items made from 15 different doughs. Amy’s best-selling products included her semolina bread, walnut scallion bread, black olive twists, apple walnut raisin rings, and organic whole wheat bread with toasted seeds.

As Amy’s business grew, she discovered a growing retail interest. The area around Amy’s Bread was improving, and new restaurants and coffee shops were opening. She began to bake rolls and single-serving loaves specifically for retail customers. She eventually hired counter help to service the retail customers and began selling not only breakfast breads, like muffins and scones, but sandwiches to customers as well. She set up attractive Page 540window displays and added a few small tables in the front of her shop. Amy’s retail business gradually grew until it represented about 25 percent of sales. Best-selling items for retail traffic included focaccia with rosemary, bread twists, sourdough baguettes, and country sourdough loaves. Amy noted that her staff “took great pride in serving retail customers.” They told Amy, “We enjoyed hearing directly from the customers how much they enjoy the bread.”

Amy commented that “wholesale is my mainstay and where the greatest volume of sales exist. However, the profit margin on retail is better than on wholesale.” Amy remarked, “A critical part of my expansion decision is deciding whether the expansion should be solely for wholesale space, a combination of retail and wholesale, or purely retail.” Amy felt this was a crucial issue because the use of the space really drove the location decision. Amy knew, “If I were to expand to meet my waiting list of wholesale customers only, then the facility needed to have good access to major streets with an ample truck dock for loading baked loaves and unloading supplies and ingredients. It also could be located in a less ‘desirable’ neighborhood. However, if retail were to be the emphasis, then I needed to find an attractive space with lots of foot traffic in a neighborhood where many people lived and worked.”

**Competitors**

When Amy’s Bread opened, bread baking appeared to be a growth industry, boosted by healthful eating trends. The U.S. Department of Commerce reported that per capita consumption of specialty breads increased 12 percent from 1988 to 1993. A 1992 article in *Bakery Production and Marketing* stated that key trends predicted for supermarkets in the 1990s would be the expansion of in-store bakeries as a key aspect of enhancing their outreach to customers.

In 1993, per capita consumption of specialty breads was 23.28 lbs. which represented 30 percent of all bread consumption. A Gallup Poll in January 1995 showed that 71 percent of adults prefer bread to all other grain-based foods. Ninety percent indicated that grain-based foods were convenient, and 63 percent thought bread was low fat. New bread chains and franchise locations were springing up every day, including Stone Mill Bread Company, Panere, La Madeleine, and the original, Au Bon Pain. Perhaps the biggest of the franchise chains was the Great Harvest Bread Company, founded in 1976. In 1995, Great Harvest had 87 stores with 15 more under development, sporting a 30 percent annual growth rate.

Closer to home, Amy’s Bread had several primary competitors for specialty breads, including the Tom Cat Bakery in Queens (one of New York’s other boroughs), Ecce Panis, and Eli’s Bread. They were well-established and larger than Amy’s Bread. They supported a client list that included famous restaurants such as the Union Square Café, Balducci’s, and Dean & Deluca. These bakeries tended to be more mechanized than Amy’s Bread, utilizing equipment for dough shaping and baking.

Some of the larger commercial bakeries had folded due to competitive pressures but, at the same time, more and more small bakeries featuring specialty varieties were opened in Manhattan and the surrounding area. These microbakeries, like Amy’s Bread, catered to upscale restaurants and gourmet shops that wanted to pamper their customers with the best of fresh, creative breads. Amy felt that “the secret to financial success in the bakery business was to differentiate your breads, rather than copying what everyone else made.” Amy maintained, “The keys to getting and maintaining wholesale customers are innovative and consistently high-quality breads. One of the ways I ensure high quality is by the hand-shaping and individual baking of the bread. The retail customers also want consistent quality, but they are looking for convenient locations and prompt service, too. I don’t focus on what my competitors charge. Occasionally, I see their price lists, but I basically charge what I feel I must to cover my expenses and overhead. In fact, many of our prices have not changed since we first opened for business.”

**Financial Results**

Shortly after her 1992 opening, Amy discovered what many entrepreneurs find to be a major roadblock: cash flow. As new entrepreneurial businesses began to flourish, more and more up-front money was needed for equipment, supplies, and staff. Typically, the customer base had not grown large enough to cover all the expenses, nor were customer accounts as current as desired, and sometimes products were not priced correctly. Amy remarked, “Soon after opening, I discovered that even if I sold every loaf I could make, my revenue would not be high enough to cover my high monthly lease and equipment rental expenses.” Amy was very lucky though, when adjoining space opened up in December, and although she could not easily afford to lease the space, she also knew that she could not continue to exist without expanding. Quickly, Page 541Amy was able to borrow enough additional funds from family and friends to lease the adjoining open space. By January 1993, she was in full production in her newly expanded space.

Though the beginning months proved to be quite a struggle, Amy’s Bread gradually grew. The 1998 income statement and accompanying schedules for Amy’s Bread highlight her sales and profitability. Amy remarked, “Since payroll expenses rise with sales, the real profits only come from economies of scale reached with fixed expenses like rent and utilities.” Amy further noted, “Given the low unemployment rate, there often is a shortage of good staff available at the salaries my business could afford to pay.” Amy’s contribution margin on retail operations was 47 percent; it was only 35 percent for wholesale operations. Other bakeries that were more mechanized experienced higher profit margins. In order to ensure the highest quality of product, Amy’s Bread hand-shaped all their breads; therefore, labor costs were much higher than other bakeries. For example, a “mechanized” bakery with sales revenue similar to Amy’s Bread had only five employees; Amy’s Bread needed 20 employees to produce the same amount of sales.

In analyzing other expenses, Amy commented, “Food cost changes usually come from flour, nuts, dairy products, and olive oil. Prices for those products are quite volatile while prices for other ingredients remain quite stable.” In the mid-1990s, the baking industry experienced a steep rise in the price of flour. However, industry reports showed that bakeries were only able to raise their prices 5 percent over the same time period. In addition, restaurants, overwhelmed with sources of bread providers, were resistant to bakery industry pressures for price hikes. For quality reasons, though, Amy rejected using “quick-bread” mixes where you only add eggs and oil, preferring more expensive fresh, organic ingredients and sourdough starters.

**Marketing Techniques**

Amy said her most successful marketing technique was to “keep current customers happy.” She noted, “Word of mouth is very powerful in the New York restaurant business.” Another way that Amy had obtained new customers was by being very available to the press. Amy emphasized, “Whenever someone calls for an interview, I make the time to meet with them and make every effort to make them feel welcome. I invariably discuss what is unique about my breads and, of course, everyone receives free bread samples. The fact that I am a woman in a male-dominated industry helps ensure that my business is an interesting story.” Amy also determined that “whenever there was a mention of my business in a local paper, business increased a great deal for the next 2–3 weeks, and some of the new customers continued to return. A positive review by an outsider is better than any ad I could write.” However, limited advertising was used for special events or seasonal product promotion.

Amy’s Bread has been recognized by *The New York Times, New York Magazine, Modern Baking, Gourmet,* and *Food & Wine,* just to mention a few. Excerpts from these articles include the following.

“At her tiny, charming storefront in what used to be known as Hell’s Kitchen, Amy Scherber turns out a dozen and a half sublime varieties that are anything but conventional white bread. Amy’s is the candy store of bread bakeries.” *New York Magazine,* June 1994. “Armed with a gentle manner, modest business plan and a genuine love for baking bread, Amy Scherber, 34, has managed, in less than 2 years, to position her bakery in the highly competitive, sometimes cutthroat, specialty wholesale bread market of New York City.” *Modern Baking,* November 1994.

Amy had other successes as well. The 1996 *Zagat Marketplace Survey* ranked Amy’s bread third out of 27 New York bread bakeries. “The best thing to happen to Ninth Avenue” say admirers of this “charming” bread shop filled with the aroma of “home baking”; it offers “imaginative breads to build meals around” and “consoling sticky buns”; the breads are also sold in food specialty shops around Manhattan; owner, Amy Scherber (the “Streisand of bakers”) and her “friendly” staff “revere bread and it shows in every loaf.” *Zagat,* 1996.

Other marketing techniques pursued by Amy’s Bread included decorating the shop windows for every holiday. One could find large decorated heart cookies on Valentine’s Day and big baskets of specialty breads on Easter. Amy regularly sent free samples of her breads to influential chefs. She donated bread to charities, taught baking classes, and appeared on television Food Network shows. In addition, the Amy’s Bread delivery truck helped spread the word as it circled Manhattan delivering bread.

Amy was not one to rest on her laurels. With her assistant manager, Toy Kim Dupree, Amy developed a cookbook that was published in 1996. This effort consumed countless hours to carefully modify recipes meant for huge batches of dough down to the one loaf size. It also involved having the recipes tested by untrained bakers and editing and improving the instructions. Amy had Page 542to explain her techniques so that the novice baker could understand them. Amy noted, “The cookbook project took way more of my time than I could have ever anticipated.” The cookbook was a hit with bakers everywhere. Reviews of the book, as well as glowing customer comments, were posted at the Amazon.com website.

To add to her challenges, Amy’s long-time exposure to bread and yeast had made her allergic to many basic bread ingredients. Amy said, “I have learned that if I spend too much time around the mixing of the dough, I get an itchy nose, watery eyes, and a cough. I also have to be careful to eat bread in moderation.”

Because of the popularity of her Manhattan bakery and her cookbook, Amy was contacted to consult with bakeries across the country. She also made a videotape appearance on the Oprah Winfrey show featuring successful young entrepreneurs.

Amy was also in the process of developing an Amy’s Bread website designed primarily for marketing and public relations purposes. Although they would accept on-line orders, Amy noted that, “bread is about freshness, impulse buying, and temptation. We do not expect much mail-order business, and truthfully, shipping expenses can often be higher than the cost of the bread.”

**Future Opportunities**

Armed with 6 years of continuing success, Amy was facing a critical decision. Should she expand or stand pat? She had a waiting list of wholesale customers, but could she stretch herself and her resources enough to expand successfully? Despite the popularity of Amy’s Bread, Amy was still working long hours and earning only a modest income. Amy had managed to put away a good-sized nest egg, but it wasn’t nearly enough for expansion. Armed with sales and financial projections, she began by looking for additional wholesale production space in Manhattan. Amy was looking for about 3,000–4,000 square feet that would essentially triple her current space. She based this requirement on her growing waiting list of potential customers, analyses of optimal production layouts, and associated projections for sales and expenses.

Amy eventually found a 6,000-square-foot building on 31st Street that she felt she could afford. She also succeeded in getting a bank to agree to a $150,000 loan for her business plan. Unlike her 1992 application for a loan, Amy now had a proven track record and was interested in borrowing funds to purchase a hard asset, a building. However, her estimated budget for purchasing the building and making needed improvements was approximately $300,000. Amy’s personal savings as well as the bakery business savings were not enough to make up the difference. Creative finances would be required to expand … but Amy declared, “I have managed before and will again.”

While pursuing this plan, a developer contacted Amy with a new option. A lease was available on a 7,500-square-foot space that was part of a block-long warehouse renovation on 15th Street. The developer’s idea was to fill the space with a variety of food producers with small retail shops who sold their products at slightly reduced prices directly from the production source. The proposed market would include a fresh produce shop, flower shop, and pastry shop. This space was essentially an empty shell with no wiring, ventilation, plumbing, or interior walls. Amy would need to make all the leasehold improvements, but she could also choose how things were to be designed and constructed. Amy estimated that it would take 4 months to construct her store at a cost of approximately $500,000. This rental space had retail potential; the 31st Street building she could purchase was essentially a production facility only and was located in a desolate area. Amy was faced with a decision to lease space that would service both retail and wholesale customers, or to buy a space that would serve wholesale customers only.

Amy commented, “Although retail is profitable, you need many locations to reach more customers and increase retail volume. Wholesale business volume can be increased from just one location.” Amy’s gross sales were approximately 75 percent wholesale and 25 percent retail. The wholesale business was much more stable with advance bread orders for large, fixed amounts. Retail business depended on individual consumer buying decisions for much smaller quantities. However, an item that sold for $1.10 wholesale would retail at $1.75. This represented a price increase of 59 percent contrasted with an additional retail cost of only about 14 percent (for counter staff, table space, and so forth) resulting in a projected per item net retail gross profit margin increase of 45 percent. And, retail sales were for cash only.

Amy said, “I am sure the answer lies in careful financial projections for sales and associated costs, a bit of luck, and a lot of passion and hard work.” It was time to complete some detailed financial analysis, including cash flows to help decide the best course of action. Amy stated, “Deciding not to expand would be the only “sure” bet. But, I’m not sure I am ready to sit back and be satisfied with what I have already accomplished. I have worked so hard to get this far, I am not sure I can turn Page 543hard-earned customers away. And, what if my business slumps because I can’t meet increasing demand? Can I keep interest in my bread high if I am turning away potential customers? Should I rely on my personal insights and awareness of New York City trends?”

What should Amy do? Expand or stand pat? If expand, should it be a wholesale operation only? Wholesale and retail? Retail only? Two locations or one?

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