The Brownie Baker: new directions for a healthy future

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ABSTRACT

The Brownie Baker bakery makes high quality, individually packaged brownies, muffins, Danishes, cookies, cakes, and donuts. Owner Dennis Perkins had led this small, entrepreneurial business on a path of success for nearly three decades, navigating changing times and creating a recipe for continued success. In recent years, the bakery, located in Fresno, California, has undertaken new strategies for growth, including private label production for convenience stores and contract packaging of a high protein, healthy treat. Further strategies for a healthy future are on the table. This case study describes the new steps forward and presents for consideration various strategic opportunities and challenges that lie ahead.

Keywords: Strategy, operations management, bakery, private label, contract packaging

INTRODUCTION

Dennis Perkins bought The Brownie Baker in 1990 from a Fresno woman who had been selling her homemade brownies to local delis and restaurants since 1979. At first she was baking in her kitchen, and she gradually grew annual sales to about $180,000. Perkins transformed the company from its humble beginnings and about five employees into a bakery with annual sales exceeding 25 million dollars and a distribution network stretching across the country. Today, Perkins employs about 130 workers and plans to add more to support his recent expansion into a second bakery building. This case profiles some of the changes to operations strategies made in recent years to respond to changes in the external environment. It also poses various scenarios for future growth as Perkins continues to lead the company into new and interesting ventures in response to market trends and industry practices (Perkins, 2019).

COMPANY BACKGROUND

Product Design

Dennis Perkins worked in sales and marketing at PepsiCo for a number of years before buying The Brownie Baker. Longing for a change that would allow him to run his own business, he began to search for local companies that were for sale. Though he knew little of the baking industry, The Brownie Baker appealed to him because he believed he could use the relationships he built with convenience stores for PepsiCo to develop a distribution network for his brownies. This strategy proved successful, and rather than selling to restaurants and delis as the previous owner did, Perkins focused on the “grab and go” convenience market. (Perkins and Robinson, 2018)

Over the years, he expanded his product line to include other individually packaged baked goods such as muffins, cookies, cakes, and Danishes. For a while Perkins outsourced production of Hispanic pastries, but he eventually abandoned them. Although California is home to a large Hispanic population, his market research revealed that when Hispanics want to buy a Hispanic pastry, they prefer to buy one that was made in Mexico or by a local Hispanic bakery. Another product which performed successfully for a while but which Perkins eventually dropped was tiny donuts. He entered the market via outsourcing after Hostess went out of business and left a void. Over time, however, more competitors emerged, and the market became too crowded. Perkins now prefers to focus on mainstay Brownie Baker products that are more unique and better reflect the company’s image. (Houts, 2014)

Perkins positions his products as high quality, gourmet baked items. His typical product is large, meticulously packed, and displayed in colorful boxes that can be placed directly on the special display racks he provides to convenience stores. This aids in the quick unpacking and professional display of his baked goods. Products are individually wrapped, and the plastic film sports the “brownie” mascot, an elf in a baker’s hat. Product films were recently redesigned by Perkins son, Ryan, with a new, eye-catching color scheme. (Perkins, 2019)

Today, the baked goods sell for $1.99 to $3.49 each in various convenience store and grab and go distribution points. Although the bakery began distributing to grocery stores like Savemart, Vons, Safeway, and FoodMaxx in 2011, Perkins decided that this is not the main way he wants to grow the business. Shelf space is very expensive, and consumers expect a lower price point in the grocery format than in convenience store. Thus, margins are significantly lower. Also, grocery store customers often want multi-pack items rather than individually wrapped ones. Perkins therefore views convenience stores as the favored distribution point for The Brownie Baker's core line. (Perkins and Robinson, 2018)

A decade ago, Perkins tried launching a "healthier" baked treat, but it was not successful. Brownie Baker customers were looking for a rich and sweet treat, not a healthy one, and Perkins felt the market for healthier treats was too small and too crowded to pursue any further. Times have changed, however, with demand for healthier snacks on a strong upward trajectory. Over the last few years, one of the biggest trends in the food industry is the move towards products that are "clean." This means the ingredients are as natural as possible and are similar to readily recognized ingredients that people use to cook or bake with at home. In addition consumers are looking for products labeled "organic," "non-GMO," and "preservative free." Many also want gluten-free, high protein, or vegan products. Keeping these trends in mind, Perkins has been on the lookout for innovative ways to better utilize his facility and ensure he always has plenty of production to keep his workers and equipment busy. These factors led to new strategic directions beginning in 2016 and continuing to develop today. Perkins is pursuing several ventures. One involves making private label products for two out-of-state convenience store chains. Two contract packaging ("co-packing") agreements have been struck, first with a company that sells healthy treats and later to bake sweet treats for breastfeeding mothers. A third approach pairs the bakery with well-known companies like Nestle and Hershey in co-branding agreements. Other options, like co-packing CBD infused brownies or developing markets outside the United States are in the research phase. Pursuing these new strategies also means Perkins needed more space for production, so capacity decisions have played a key role in his the success of these plans. (Perkins, 2019)

Location and capacity planning

In 1990 when Perkins acquired The Brownie Baker, it operated from a 2,500 square foot facility. Later, to meet growing demand, the bakery moved to a 5,000 square foot facility and eventually to its present location in 1996, which, after undergoing a remodel was enlarged from 30,000 to 40,000 square feet. Demand increased steadily, and by the end of 2016, most of Perkins' employees were putting in almost 60 hours per week. The bakery was running 24 hours a day, Monday through Friday, and sometimes on Saturdays too. This work pace was a big switch from just a year or two prior, when production could be completed in just four days with two ten-hour shifts. (Perkins and Robinson, 2018).

Perkins set out to add a second facility, and staying near the existing facility was a top priority. Fortunately, he found what he needed just a block away and was able to open up for production within a few months of the purchase. The new bakery is used exclusively to bake the healthy treat product that he co-packs for another company. The new automated line involves fewer "touches" than the process layout used in the original building. The healthy treats are made with a repetitive processing system using a product layout. First, the mixer mixes a 2500-pound batch of dough which is loaded into a big, rolling bowl. The dough is poured into the depositing equipment and dropped piece by piece onto the conveyor belt. From there, the conveyor takes the treats on a 12-minute journey through the band oven. Next, they wind down on the conveyors to cool and end up in the packaging area. The treats are hand packed because they need to be placed vertically in the boxes, and the packaging machines can only pack items one on top of the other. (Perkins and Robinson, 2018)

Production has steadily increased in the new building, and now it takes five days a week and three eight-hour shifts to keep up with demand. Additional capacity can be gained by running weekends when needed. Thus, in only a couple of years, the new bakery is nearing full capacity. However, Perkins still has room to grow if he adds more equipment. There is actually room for another bakery production line and band oven. With a lot of capital to support the project, the new facility could double its output. (Perkins, 2019)

Meanwhile, the older bakery facility now runs 24 hours a day, four or five days a week with three eight-hour shifts in a make-to-order system. The system is at about 75% capacity now that the rest of production has moved to the new building. If demand for the other co-packing (i.e., Milky Mama), private label, co-branding products continues to grow, capacity could top out fairly soon. However, Perkins might consider the use of robotics if capacity needs to be increased further. (Perkins, 2019)

NEW STRATEGIC DIRECTIONS

Perkins has important decisions to make regarding which projects to pursue further, how to best utilize his capacity, and finally, what to do in the face of rapidly increasing labor costs in California. Some of his strategic options, current and future, are discussed below. Which of these he should continue, expand, or abandon are decisions which will shape the The Brownie Baker's future in the years ahead.

Private Labels

A private label strategy involves making product, either identical to the name brand (i.e., The Brownie Baker) or with ingredient or recipe modifications, and then putting a different brand name on it. In the past Perkins was against private label packaging, preferring to build recognition for his own Brownie Baker brand. However, in 2016 he decided to give private labelling a try. Perkins identified a couple of convenience store chains that did not currently carry his products but that were big enough to support sizable production runs. One of these was the Jackson chain, based in Idaho, with about 225 stores. Perkins presented about a dozen of his bakery items specially packaged with a private "Jackson" label, and, as he happily reports, "They loved it!" (Perkins and Robinson, 2018) With Jackson's name on the products, managers and employees feel a sense of ownership and pride in the product, and it works! The Brownie Baker now ships truckload quantities each week for the Jackson label, and the portfolio continues to expand. In 2018, brownies and Danishes were added to the existing lineup of muffins and cookies. (Perkins and Robinson, 2018)

Following on the heels of that success, Perkins went to Allsups, a convenience chain in West Texas and New Mexico with about 325 stores. He told them of the success of Jackson's private label, and Allsups was eager to set up a similar deal. Perkins thinks it is unlikely that these chains would invite a competing product into the stores to sell against their private labels, so that also helps The Brownie Baker take share from other bakeries. Sales in this private label category have experienced steady growth since the agreement was struck in 2016. (Perkins and Robinson, 2018)

This concept works well for The Brownie Baker from a production standpoint. Because it is packaging the exact same baked goods and only switching the labels, little changeover time is needed. Employees can set up the equipment to make a particular item, for instance, a chocolate chip cookie. Once they finish running as many are needed for The Brownie Baker name brand label, the packaging line is switched over to the Jackson or Allsups label with less than five minutes of downtime. Although a recent change in the size of some of the cookies necessitates one other small adjustment in the setup, other products can run virtually uninterrupted. (Perkins and Robinson, 2018)

Contract Packaging (co-packing)

Another new strategic direction involves contract packaging (co-packing), which means The Brownie Baker produces baked items and packages them under another company's label and using that company's recipes.

- **Co-packing Plan #1: Healthy Treat**

Perkins spent many months developing a healthier baked treat that would fit the needs of the growing market segment of dairy free, gluten free, non-GMO, and vegan customers. Right before The Brownie Baker decided to go to print with its own label and develop distribution for its new, healthier products, it was asked to co-pack a similar product for an established business with distribution in many health food outlets. (Perkins and Robinson, 2018)

Perkins had an important strategic decision to make. Should he continue with his plans to introduce his own Brownie Baker healthy treat, since he had invested a lot of time researching the concept? Did he want to spend the time and money needed to develop his own brand and find distribution outlets? Even though The Brownie Baker was fairly far down the path of creating its own healthy snack, Perkins knew it would still take a lot of work to get it established. Additionally, he wondered if it would look like he was copying the company that wanted him to co-pack and if that would put his bakery at risk for losing the contract. (Perkins and Robinson, 2018).

Perkins said he "didn't want to get too greedy," (Perkins and Robinson, 2018) and decided to partner and co-pack instead of launching his own new line. When The Brownie Baker was operating solely out of its 40,000 square foot facility, it had an open-ended contract, and the healthy treat company would purchase as many units as Perkins could make. This meant the bakery could fill in all its extra production time by making the co-packed product, giving Perkins better utilization of his equipment and better efficiencies. This arrangement eventually changed to a specific weekly amount, and all the healthy treat production now runs on the automated line in the new facility. After successfully packing one flavor of the healthy treat for about a year, a second flavor was recently added to his contract. Now, Perkins must decide whether to seek even more business with the healthy treat company, which has four other co-packers in addition to him, or whether to look for another company that does not compete with the healthy treat company to fill out the capacity of the new production line. (Perkins, 2019)

From a quality control standpoint, one interesting aspect of the co-packing arrangement is that with different bakeries making the same product, consistency is definitely a concern. All ingredients are ordered from the same suppliers for all the bakeries, and quality is closely monitored to ensure that the cookies look and taste the same regardless of which bakery they come from (Perkins and Robinson, 2018).

- **Co-packing Plan #2: Milky Mamma**

Building on the success of this initial co-packing agreement, Perkins struck up another producing products for Milky Mamma, a company focused on serving a growing audience of over 20,000 lactating mothers. Milky Mama's founder has a passion for helping moms successfully nurse their babies. As a registered nurse and internationally certified lactation consultant, she designed a product line with nutrients that would help mothers boost their breast milk production. Her delicious baked goods are made with natural and healthy ingredients, and the starter pack can be used when new mothers return home from the hospital to get their milk production off to a great start. Perkins explains that the products are popular with a lot of Hollywood people and also gained exposure via a CBS news report. (Perkins and Robinson, 2018)

Customers place orders via the company's website. The items were originally just packaged in clear film, so The Brownie Baker worked on artwork for Milky Mama that includes images and nutritional information. Prior to partnering with The Brownie Baker, the startup company was already doing over 50,000 units a week with sales of over a million dollars a year in its little bakery and without any significant attempts to promote the product. Due to her products' success, the founder was ready to expand. In 2018, the Brownie Baker began producing six flavors of cookies and two flavors of brownies. The founder has other items that she continues to manufacture herself as well. (Perkins and Robinson, 2018)

- **Co-packing Plan #3: CBD (Cannabidiol) Infused Brownies**

One of the top food and beverage trends of 2019 is the addition of Cannabidiol (CBD), derived from hemp or marijuana with the psychoactive tetrahydrocannabinol (THC) removed. CBD infused waters and foods are touted by many, with purported health benefits ranging from reduction of epileptic seizures to lower levels of joint pain or anxiety. Perkins was recently approached by an entrepreneur wanting him to make CBD infused brownies to be sold in California smoke shops under a co-packing agreement that would display the entrepreneur's own brand name. After consulting several attorneys to verify the legality of the proposal, Perkins is considering this option. (Perkins, 2019)

Co-branding with Nestle and Hershey's:

Other recent partnerships involve the Nestle and Hershey's brands. The idea is to take one of The Brownie Baker's products, such as a brownie or a cookie, and incorporate a Nestle or Hershey's ingredient. Specifically, the bakery is using Nestle Tollhouse Morsels in all of its products that use chocolate chips. Additionally, three newly developed items are a Hershey's Cookies 'N' Cream brownie and a Reese's peanut butter brownie and cookie. These pairings combine Brownie Baker recipes with the Hershey's or Reese's logos on the packaging, allowing the bakery to play off the brand visibility of popular chocolate candy products and attract more customers. (Perkins and Robinson, 2018) An agreement with Butterfinger is in the works as well. (Perkins, 2019)

Expansion to the East Coast of the U.S. or abroad to markets in Canada, Mexico, or Thailand

Perkins has some distribution on the East Coast, but the time and cost involved with shipping have been deterrents to moving more product out that way. He has also considered plans to expand into Canada or Mexico. Each of these countries poses its own unique issues, but the difficulty of competing as a small niche product against Mexico's bakery giant, Grupo Bimbo, is daunting. Recently, Perkins was approached by an entrepreneur with local connections in Thailand about the possibility of developing distribution there. These alternatives would be a huge step for Perkins into untested markets, but if he were successful, he might reach large new audiences for his products. (Perkins, 2019)

Other new ingredients, shapes, and sizes

One of the bakery's main changes in response to the trend for "clean" food was the recent transition from margarine to butter. When this took place, the cookies were reduced in size from 5.5 ounces to four ounces. While the cost of butter is higher, the change in size of the cookie from 5.5 ounces to four ounces meant that the cost to make each cookie stayed about the same. Fortunately, the bakery could still use the same baking pans for the new, smaller size. Whereas the cookie used to bake up over the edge of the special baking pans which have indentations for each cookie, now the cookie just bakes up to the edge without spilling over. This mean the transition to the new ingredient could be made without a sizable outlay for new baking equipment to support it. (Perkins and Robinson, 2018)

Brownie dimensions also recently changed from rectangular to square. In this case, the change in shape was not related to trying to be "clean," but because the deeper square shape bakes better and lasts longer. The smaller surface area makes for a thicker brownie that stays more moist and chewy and doesn't dry out as quickly. (Perkins and Robinson, 2018)

OTHER STRATEGIC CHALLENGES

The minimum wage and labor costs

In a multi-year legislated increase, California's minimum wage began its upward climb on January 1, 2016, moving from $9.00 to $10.00 per hour for employers with more than 25 employees. Further mandated increases will take it to $15.00 per hour by January 1, 2022.

Currently at $12 per hour in 2019, these rapidly rising labor costs greatly impact California manufacturers. In addition to squeezing profit margins, rising minimum wages cause feelings of inequity among longer tenured employees who suddenly find that newly hired workers are making nearly as much as they are. Perkins cannot raise all employees' wages proportionally to try to maintain the same gaps between newer and older employees. Instead, various bonus systems have been instituted to keep worker morale up and to encourage them to come up with new ideas. Perkins tries to be transparent with employees about production costs, and they appreciate his honesty and trust. Employees receive quarterly bonuses based on hitting targets. Most of his management team and line employees have been with him for many years, and he wants to do everything he can to keep them. Nevertheless, mitigating the impact of the minimum wage as it continues to go up will not be an easy task. (Perkins and Robinson, 2018)

DISCUSSION QUESTIONS

1. What operations strategies does The Brownie Baker emphasize?
2. How have changes in the socio-cultural environment related to health and food impacted The Brownie Baker, and how has it responded? Will these trends continue?
3. From an operations and marketing standpoint, what benefits and risks are involved with private label packaging and co-packing as opposed to The Brownie Baker selling its own branded Brownie Baker items or developing its own healthy treats?
4. Research the California labor market and the issues faced by employers there. How does the rising minimum wage affect companies like The Brownie Baker? What other options should Perkins consider in order to keep productivity and profits up as his labor costs increase?
5. Put yourself in the role of marketing manager. Which of the following strategies for using excess capacity and/or growing the business are best for Perkins? Research and identify the general operational issues, benefits, and risks of each of the following strategies. Develop a list of recommendations for Perkins, keeping in mind his preferred strategies and business philosophies in the past as well as the challenges posed by the current business environment.
   Strategic options:
   #1: Creating private label products with other convenience stores chains, similar to the arrangements Perkins has with Jacksons and Allsups
   #2: Exploring further cobranding agreements with well-known partners, such as the Nestle plan
   #3: Seeking more business with the healthy treat company for larger volumes or other flavors
   #4: Producing CBD infused brownies in a co-packing agreement to be sold in California smoke shops
   #5: Expanding The Brownie Baker's own branded distribution on the East Coast
   #6: Expanding into convenience stores in Mexico
   #7: Selling Brownie Baker branded products directly to a team of two entrepreneurs, one from the U.S. and one from Thailand, for redistribution in Thailand

TEACHING NOTES:

1. What operations strategies does The Brownie Baker emphasize?

   The Brownie Baker primarily uses a differentiation strategy based on high product quality and excellent service as well as a location based or "convenience" strategy.

2. How have changes in the socio-cultural environment related to health and food impacted The Brownie Baker, and how has it responded? Do you believe these trends will continue?

   Whereas ten years ago there was not sufficient interest or growth for The Brownie Baker to successfully enter the healthy treat market, today's marketplace is just the opposite. Millennials in particular are driving a fast-growing trend towards "clean" food, made naturally and with as few ingredients as possible. Other market trends like "non-GMO," high protein, and vegan have also become powerful influences on companies in the food industry. The Brownie Baker's choice to opt in by co-packing the healthy treat product as well as the new Milky Mama items allows it to join this powerful segment of the market while still preserving the image of its original label and baked items, which still have a very sizable audience. Quite likely, the trends in place now will continue to drive the market for some time as millennials raise their children and look for healthier and more natural food options for their families.

3. From an operations and marketing standpoint, what benefits and risks are involved with private label packaging and co-packing as opposed to The Brownie Baker selling its own branded Brownie Baker items or developing its own healthy treats?

   Private label packaging allows The Brownie Baker to run larger batches when it sets up to do a particular flavor. There are only a few minutes of down-time to change the packaging from its own logo to that of the convenience stores, Jackson and Allsups. With equipment running more consistently, utilization rates are increased for the bakery and unit costs are lower. It also means that the bakery can simply order more of the same ingredients it already purchases and possibly get further quantity discounts when buying ingredients. In addition, it is unlikely that these convenience stores will want competing products selling side-by-side with their own branded products, so this strategy also helps get rid of The Brownie Baker's competition in those markets. Perkins found it relatively easy to strike those private label agreements, and he feels that even if either of those chains decided to have someone else make their private label baked goods in the future, it would not be that difficult for him to find other convenience chains to work with instead. One disadvantage, however, is that he does not get to build brand awareness in the markets where he makes the private label products, but at this point he believes the increase revenues from the private label are sufficient to justify using this approach.

   Co-packing the healthy treat product allowed The Brownie Baker to quickly enter this lucrative and growing market without having to develop its own product line, market it against existing competitors, and find distribution. Rather, Perkins can utilize his new bakery building to produce for a company that has already laid all that groundwork and just needs someone to bake the product. In the early days of the agreement, the co-packing partner bought as much product as Perkins could make. Over time that has changed, but Perkins is baking a larger than ever quantity of the healthy treats. Also, whereas he was previously contracted to bake only one flavor of the product, a second flavor was recently to his assignment. The primary risk, however, is that the healthy treat company might decide not to contract with The Brownie Baker or to do so at a sub-optimal level that leaves a lot of unused capacity. Many businesses are leery of making special products or accommodations for powerful buyers who may someday try to push for lower prices or look elsewhere for their outsourcing needs. With four other bakeries currently under contract with the healthy treat company, it is always possible that The Brownie Baker's contract could be reduced or terminated. It made a sizable investment in its second bakery building, and paying off the building will take several years, so keeping busy with orders for the healthy treats is imperative for success. Even after the facility itself is paid for, ongoing orders will be critical to sustain the costs of maintaining the facility.

4. Research the California labor market and the issues faced by employers there. How does the rising minimum wage affect companies like The Brownie Baker? What other options should Perkins consider in order to keep productivity and profits up as his labor costs increase?

   When the minimum wage increases, employers are forced to pay employees more even though their productivity has not increased. This diminishes profit margins and can also seem very unfair to longer-tenured employees, who may find their wages very similar to those of new hires. Finding ways to cut costs in other areas, such as seeking lower cost ingredients or packaging, implementing lean production, and reducing Ohno's eight wastes might help mitigate the higher labor costs but do not address the issues of inequity. Keeping morale up in this setting is very challenging for employers, and even with a history of a positive workplace culture, there are no guarantees that employers can find ways of raising productivity or decreasing costs. One common trend is that employers are automating more functions as the cost of manual labor and employee benefits become too high. This is true in service businesses, such as fast food restaurants which introduce kiosks or automated cooking processes, as well as in manufacturing companies. Perkins may be more likely to implement robotics if the increases in labor costs cannot be offset enough in other ways.

   Some employers may lay off newer, less productive employees whose work does not merit the new minimum wage. This makes those who are most marginal in terms of their skills at the greatest risk of losing their jobs, and it will make it hard for them to find work elsewhere for the same reason. Raising prices to compensate for higher labor costs is problematic at best. It is difficult for The Brownie Baker to raise prices enough to significantly offset higher labor costs when its item sells in the $1-$3.49 range and changes can only involve a few pennies per unit of product. Furthermore, distributors often do not take kindly to price increases. They may opt to stock competitive products that are more attractively priced if larger competitors can better mitigate the increased labor costs. Likewise, price sensitive consumers may look to competing baked items or cut back on how many they purchase. Every penny matters when The Brownie Baker competes with companies much larger than itself and with better opportunities for economies of scale in purchasing and production. Another alternative involves reducing portion size while keeping the price point the same. The success of this would partly depend on if it is very noticeable to consumers.

Any of these beg the question of whether the benefits of increasing the minimum wage really outweigh the problems it creates. Employers in California will continue to wrestle with this issue as the minimum wage keeps increasing over the next couple of years. Some companies will continue to exit California as a result of labor and environmental regulations that increase costs to unsustainable levels.

5. Put yourself in the role of marketing or operations manager. Which of the following strategies for using excess capacity and growing the business are best for Perkins? Research and identify the general operational issues, benefits, and risks of each of the following strategies. Develop a list of recommendations for Perkins, keeping in mind his preferred strategies and business philosophies in the past as well as the challenges posed by the current business environment.

Strategy #1: Creating private label products with other convenience stores chains, similar to the arrangements Perkins has with Jacksons and Allsups

As long as Perkins partners with the right accounts at the right volume, he believes the potential to increase revenues and profits is there. He would have to spend time researching and approaching potential candidates, and care would need to be taken to create agreements that match available capacity without putting too great a strain on the system. He would also want to make sure that he does not encroach on the market areas of Jacksons or Allsups. Another risk is that sales might not pan out as expected. Furthermore, it is possible that after things get started and money is invested in the new packaging film, which is expensive to design, the convenience store might find someone who is a few cents cheaper per unit and sign with them instead. A key concern is the difficulty in getting the convenience stores to sign multi-year agreements to commit to work with The Brownie Baker. Even if they do sign such an agreement, they can still break it, and it would be up to The Brownie Baker to try to enforce the contract, a task Perkins describes as both time-consuming and difficult.

Strategy #2: Exploring further cobranding agreements, such as the Nestle plan

It is helpful for The Brownie Baker, a relatively smaller niche player, to leverage with appropriate national brands willing to partner with it. One challenge is that if a national brand changes its management style, as happens when leadership comes and goes, there is the potential that the partnership could be jeopardized. With the many acquisitions and buyouts in the marketplace, Perkins says this often happens. The Brownie Baker had talked about co-branding baked items with Butterfinger candy as an ingredient, but when Nestle sold the candy to Nutella maker, Ferrero-Rocher, Perkins had to go through an entirely different channel to work the agreement. In the meantime, Ferraro changed the Butterfinger logo and flavor, posing further challenges.

Strategy #3: Seeking more business with the healthy treat company for larger volumes or other flavors

Benefits of working with an existing partner include an agreement that has already been negotiated and a production process that is already in place. Employees have been trained on how to make the product, and supply chains for ingredients are already developed. Running only one or two flavors has the benefit of economies of scale and little to no changeover costs. Adding additional flavors has the potential to increase volume, but it also increases unit costs by requiring more downtime for changeovers.

A significant risk involves putting too many eggs in one basket so to speak. When any one partner begins to control a large part of the business, The Brownie Baker could be left hanging. If the Healthy Treat company decides to shift production to its other co-packers or if soft sales from changing customer preferences or increased competition means fewer orders to fill, The Brownie Baker could suddenly be faced with large amounts of excess capacity and no immediate way to fill it.

Strategy #4: Producing CBD infused brownies in a co-packing agreement to be sold in California smoke shops.

Since marijuana is legal in California, incorporating CBD as an ingredient and selling it in smoke shops is also allowed. However, many states do not allow for the legalized sale of marijuana, and the FDA has yet to issue formal guidelines to allow the use of CBD in foods and beverages. In the meantime, many businesses in many states are putting CBD in foods and beverages, but they do so at a risk. In some cases, they are buying the CBD from sources that have not been certified for quality/safety by a third party, and it is possible that the products they put it in may not be safe for consumption. Also, because the FDA has not approved the use of CBD in food and beverages, this is an ethical grey area made more confusing by rules and regulations that vary from state to state. The Brownie Baker wants to take a cautious approach for now, considering the option to participate with a partner for co-packing in the future.

If Perkins does decide to venture into this new field, making the products to be sold under the co-packer's label affords some protection to The Brownie Baker's image from customers who may be skeptical of or outright opposed to the use of CBD in food. The Brownie Baker's logo and company image are viewed as rather "cute," appealing to both children and adults, so selling a CBD infused brownie under that label could jeopardize perception of Perkins' brand. Co-packing offers the benefits of using available capacity and baking a familiar product like brownies with a degree of anonymity, while letting someone else navigate legal requirements, develop market, gain consumer acceptance, and handle the distribution.

Strategy #5: Expanding The Brownie Baker's own branded distribution on the East Coast

Selling more of The Brownie Baker's branded baked goods on the East Coast would expand name recognition and sales of the core business. The Brownie Baker has a key person in Florida that it works with to locate viable distribution options, so that resource could be tapped further. Additionally, Dot Foods, a family-owned, two billion distribution company, takes possession of snack foods from many companies, including The Brownie Baker, and delivers all over the U.S. Because the Brownie Baker has partnered with Dot for many years, it sometimes helps the bakery find new outlets for distribution.

Risks associtated with selling more product on the East Coast involve the costs of establishing new points of distribution and competing against other popular local brands. Higher shipping costs in refrigerated trucks also eat into profit margins which are already only pennies on each unit.

Strategy #6: Expanding into convenience stores in Mexico

Obvious benefits to expanding into convenience stores in Mexico include the relatively close proximity to these foreign markets as well as added sales volume for existing product lines. Located in Central California, Fresno is within a potentially manageable distance from Mexico, and much cross-border trade takes place daily between California and Mexico. Fresno is home to a large Hispanic population with knowledge of the Mexican culture and preferences as well as fluency in the Spanish language. The Brownie Baker's past experience in selling Hispanic pastries in California afford it some background in the types of products traditionally enjoyed by consumers in Mexico.

Risks include methods for being paid as well as changing trade and tariff rules with the countries. If markets in Mexico, for instance, are suddenly closed off or if access is made more difficult because of tariffs or other barriers, sales would suffer. Compliance with labelling laws specific to Mexico would add further costs. Translation issues would affect packaging design and content. Perhaps most significantly local competition would be an issue. Grupo Bimbo, the world's largest bakery, is headquartered in Mexico City, making it very difficult for a smaller niche bakery to compete in Mexico because of higher production costs and in Perkins' case, higher distribution costs as well.

Strategy #7: Selling Brownie Baker branded products directly to a team of two entrepreneurs, one from the U.S. and one from Thailand, for redistribution in Thailand

Perkins was recently approached with this offer and considered the following points. There are several benefits to expanding into Thailand with a local partner. An entrepreneur with knowledge of the Thai consumer and distribution networks could help The Brownie Baker get a foothold and gain another revenue stream for its business. Since the Thai partner would purchase and take possession of the product and then distribute it in Thailand, Perkins secures his profit margin regardless of what happens with sales after that. The Thai partner has knowledge of the customs, rules, and cultural nuances of Thailand, as well as consumer preferences and potential competitors. The products could still be made with the bakery's excess capacity albeit with changes in packaging film to accommodate the Thai language, rules, and preferences. In addition, the government of Thailand has a strong focus on economic development and actively seeks to attract foreign investment. The Thailand Board of Investment (BOI) is an agency dedicated to promoting foreign investment and has a history of pairing global businesses with developers to help build factories, distribution facilities, and the like in nine expansive industrial parks across the country. Even if Perkins chose to produce the products in Fresno for the time being, he would likely interact with a government favorably disposed to allow him to sell in their country and perhaps eventually invest in local facilities if market needs were sufficient.

Disadvantages or risks include the cost of shipping product to Thailand and the need to spend money to advertise to generate awareness of and interest in a new brand. Some similar products at comparable prices are already available in Thailand. The baked goods must be frozen for long distance transport, and the cost of doing that on a boat all the way to Thailand involves substantial added costs. In addition, Perkins and his Thai partner would have to determine whether there is enough differentiation between products currently available in Thailand and The Brownie Baker products to warrant entry into that market. Perhaps flavors that are not already offered in Thailand could be identified so that Perkins could find a niche for his baked items and generate consumer interest. In addition, offering a product that is a little more expensive and has a longer shelf life could help mitigate some of the concerns about shipping distance and cost if consumers were willing to pay the higher price. According to Perkins, it can sometimes be difficult to get these types of plans to cost out. Lastly, releasing product to others for redistribution means Perkins relinquishes control over quality of both product and service, as he can no longer oversee the way the baked goods are handled or the way distributors are treated.

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