



Centre for ASEAN Studies



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## **Butter Cup Bakery<sup>1</sup>**

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1. The information on this company was disguised.
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## 1. Introduction

After a successful year in 1995, Mr. Poon Yindee, marketing director of Butter Cup Bakery Company, Ltd. was pondering about a potential marketing strategy for selling cakes during the upcoming New Year season. Although cakes are consumed all year-round in Thailand, about 80 percent of the cakes are sold during the New Year's holidays. Cakes are popular among Thais to give as a New Year's gift. Because of the seasonal nature of the industry, an inadequate strategy would lead to a serious revenue decline of this product line.

## 2. Country Information

Thailand has a total land area of 514,000 square kilometers. It is situated in the center of the Indochina Peninsula and shares borders with Burma, Cambodia, Laos, Malaysia, the Gulf of Thailand and the Andaman Sea. The country is divided into four regions: the mountainous North, the fertile Central Plains, the semi-arid plateau of the Northeast, and the peninsula South. (See Figure 1.)

Its population is estimated to be approximately 60 million people. The majority is ethnic Thai. Approximately 70 percent of the population live in rural areas, and the rest are located in the capital, Bangkok, and surroundings and in other major provincial cities.

Bangkok is located in the lower Central Plains. It serves as the administrative, financial, industrial and commercial center of the country. Central Thai is the official language. The city accommodates approximately six to ten million people. The exact number is hard to obtain since after the harvesting season agricultural labor migrates into the city seeking work to supplement their income from farming.

The rapid growth of Bangkok has severely strained its facilities. By having over a million registered motor vehicles and because of the limited road surface, traffic is frequently congested. To make the matter worse, public transportation is insufficient to accommodate the massive number of riders causing people to depend on private vehicles. Because of the frequent traffic problems it is difficult to estimate the time in traveling from one place to another.



**Figure 1: Map of Thailand**

The residents of Bangkok are among the nation's most wealthy. From the late 1980s into the 1990s, the country enjoyed annual growth rates in the double digits. (See Table 1) Households throughout Thailand experienced some increase in annual income. However, the most significant increase in household income occurred in the metropolitan Bangkok area. In 1993, the average household annual income was over US\$ 7,000 while in the rest of the country it was about US\$2,600. In addition, the top 20 percent of wealthy families are located in Bangkok and control closer to 60 percent of the country's wealth.

**Table 1: Economic Indicators of Thailand (US\$ billion)**

	1993	1995
GDP at current price	124.1	168.2
Real GDP growth	7.9%	8.8%
GDP per capital	2,090	2,828
Consumer price inflation	3.2%	5.8%
Export (fob)	32.5	55.5
Import (cif)	40.7	70.5
Current account	-5.4	-13.6
International reserve	25.2	37.0
Internal debt	37.1	4.5

Source: National Economic and Social Development Board and Bank of Thailand

Bangkok's population is predominately young. Over half the residents are under 30. The young have influenced the lifestyle in the city. Most of the capital's shopping centers and entertainment facilities are youth-oriented. Western fashions and new life-styles prevail and are reflected in for instance golf and tennis, delicatessens and boutiques, music and dramas.

### 3. Company Operation

The Yindee family opened its first restaurant, Yindee Kitchen, on Silom Road in 1981 serving Thai and continental food. From the beginning, the restaurant offered quality food at a reasonable price in a family restaurant atmosphere. Its restaurant operations were successful with total assets of almost 272,950,268.70 Baht in 1996 (see Table 2). Currently, Yindee Kitchen has five restaurant branches clustered in the business center of Bangkok. It employs over 300 people.

**Table 2: Company Financial Statement**

<b>BALANCE SHEET</b> as at December 31,	1996	1995
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash in hand and at banks	15,571,582.59	6,241,857.11
Deposits with financial institutions	3,221,130.10	-
Accounts and notes receivable	9,001,006.57	9,373,626.79
Accounts with related companies	5,855,656.68	3,102,176.72
Inventories	3,907,534.75	2,816,717.25
Lease deposits	-	4,164,295.24
Other receivable-Bill of exchange	-	857,142.86
Other current assets	378,247.05	511,662.44
<b>Total Current Assets</b>	<b>33,935,157.74</b>	<b>27,067,478.40</b>
Receivable from and loans to directors and employees	2,871,507.11	291,837.63
Investments in and loans to subsidiary, associated and other companies	31,435,129.11	27,304,806.56
Property, plant and equipment	174,003,907.52	53,301,727.60
Other assets	30,704,567.22	5,838,633.27
<b>TOTAL ASSETS in Baht</b>	<b>272,950,268.70</b>	<b>113,804,483.47</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Bank overdrafts and loans from banks	13,200,955.69	6,238,911.24
Notes payable to financial institutions	3,436,671.26	3,486,121.25

Notes payable to other companies	370,310.40	-
Accounts payable	40,398,752.11	19,793,145.13
Other accounts payable	15,895,968.07	9,567,121.67
Current portion of long-term debt	6,713,980.00	4,619,787.05
Accrued expenses	4,388,262.37	2,721,584.41
Other current liabilities	1,882,500.64	1,751,240.08
<b>Total current liabilities</b>	<b>86,287,400.55</b>	<b>48,177,910.82</b>
Long-Term Loans	119,269,124.66	1,127,932.67
<b>Total liabilities</b>	<b>205,556,525.21</b>	<b>49,305,843.49</b>

#### SHAREHOLDERS' EQUITY

<b>Share Capital</b>		
Authorized share capital		
200,000,000 ordinary shares of Baht 10 each	50,000,000.00	50,000,000.00
Issued and paid-up share capital:		
200,000,000 ordinary shares of Baht 10 each	50,000,000.00	50,000,000.00
fully paid		
<b>Premium on Share Capital</b>	8,521,428.57	8,521,428.57
<b>Retained Earnings</b>		
Appropriated		
Legal reserve	85,714.29	85,714.29
Unappropriated	8,786,600.57	8,891,452.12
<b>Total shareholders' equity</b>	<b>67,393,743.43</b>	<b>64,498,594.98</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>Baht 275,950,268.64</b>	<b>113,804,438.47</b>

#### STATEMENT OF PROFIT AND LOSS (for the Year ended December 31)

##### REVENUES

Sales and services	736,099,295.25	421,117,643.37
Other income	34,978,989.74	37,002,150.72
Deducted profit from subsidiaries	46,688,479.29	20,317,748.11
<b>Total revenues</b>	<b>817,766,764.29</b>	<b>478,437,542.21</b>

##### EXPENSES

Cost of Sales and Services	552,471,010.42	341,637,436.90
Selling and administrative expenses	128,486,778.93	71,270,9215.11
Interest expenses	46,495,321.89	8,227,365.64
Income Tax	27,291,151.75	17,457,434.00
<b>Total expenses</b>	<b>754,744,262.99</b>	<b>437,611,161.65</b>
<b>NET PROFIT</b>	<b>Baht 63,022,501.30</b>	<b>40,826,380.55</b>
<b>NET PROFIT PER SHARE</b>	<b>Baht 12.60</b>	<b>8.17</b>

Like many restaurant operations in Thailand, this is a family business. The main management positions are held by the Yindee family members. The head of the household is the president of the company while his wife controls accounting and finance. Younger family members are encouraged to pursue degrees that can benefit the business.

This system seemed to pay off. In 1991, when one of the Yindee family members graduated from a famous bakery school in France, a bakery was added to the operations. They sell cakes and pastries under the brand name "Butter Cup."

In each of the restaurants, cakes and other pastries were displayed at the main entrance. Although the revenue from the bakery division was a lot less than any of the other operations, the sales growth from the bakery was so attractive that the management wanted to expand this division.

In 1995, a family member, a recent MBA graduate, initiated a membership program. Under this program, customers fill out application forms providing their personal data. Consumers benefit from this by receiving

a 5 percent discount upon presenting their membership cards. To date, almost 54,300 people have signed up for the program; they represent over 85 percent of all of its regular restaurant goers.

## 4. Cake Production

Butter Cup Bakery's cakes and pastries are produced in its factory outside Bangkok and supplied to all of its restaurants. Its capacity is 2,000 pounds of cakes per day. Similar to other bakeries, Butter Cup Bakery can not fulfill all orders of cakes during the peak season. Therefore, this year, Butter Cup Bakery has installed new machines to double its production capacity. In the past, during December 25 to January 3, Butter Cup gave the highest priority to producing cakes; other bakery items especially cookies were produced in advance.

**Table 3: Cost Structure of Cake Production**

Ingredients	33%
Labor cost	17%
Expenses for inventory	3%
Shipping and packing	4%
Fixed costs	7%
Selling and promotion expenses	5%
Administrative expenses	5%

Although Butter Cup Bakery can produce 2,000 pounds of cake daily, the actual production facility amounts to only 70 - 90 percent because of the bottleneck caused by having a limited number of skilled cake decorators. Naturally, the more elaborated the cake decoration, the more skillful a worker had to be. In the short run, it was difficult to hire

or train workers to acquire this competence. In order to reduce this shortage, Butter Cup Bakery divided its cake decorators into two groups. Semi-skilled decorators handle the cake frosting. New workers can be relatively easy to be trained for this activity. However, elaborate decoration styles still requires one of Butter Cup's nine skilled decorators who spend about 15 to 30 minutes per cake. (See Figure 2 for example of elaborate decoration styles) On the other hand, simple cake decorations require only 4 to 5 minutes to be completed.



**Figure 2: decoration styles**

## 5. Competition

The bakery market is divided into three categories. The first group is the high-end, gourmet cakes that generally are offered by bakeries located in well-known hotels. They cater to an exclusive clientele who can afford a premium price of 20-50 percent higher than widely available cakes. They are known for their superior taste, unique ingredients and elaborated cake decoration. Their cakes are packed in fancy packages in order to express their exclusivity.

The second group is the larger bakery operations, which sell cakes to the mass market. This group had about 80 percent of all cakes sold in Bangkok. Normally, restaurants are the main players in this group. Although the group is composed of more than 30 restaurants/bakeries, only a few companies control the business. In fact, the largest bakery, S&P commands a market share of more than 50 percent (see Table

4). Other bakeries have only a single digit market share. The abundant number of outlets explains why the bakeries can sell large amounts of New Year's cakes: in addition to being available in their restaurants, cakes and bakery products are sold at stands they own in supermarkets, shopping malls, and office buildings. S&P, for example, has over 70 outlets in Bangkok.

**Table 4: Bakeries in Bangkok**

	Market share (est.)	No of outlets	Price/unit for 2lb cake <sup>a</sup>	Price for white cake (2lb)
S&P	56.0	70	340-440	380
Little Home	8.6	12	340-360	340
Kanda Bakery	6.6	15	300-360	360
Gateux	4.1	7	350-370	350
Yamaski	1.8	27	280	280
Fujiya	.4	8	300	300
UFM	2.5	8	320-360	320
Seefah	.9	8	320-360	360
Butter Cup	8.1	5	380-	380
Others <sup>b</sup>	11.0	3-5	280-400	280-420

Notes:

a: Price range of different cake types available at the bakery

b: There were 25 bakeries.

The competition among bakeries in this group has not been severe because each is satisfied with its strong sales growth. They put most of their effort in trying to meet the demand. New products and other innovations are limited. They tend to imitate the practices of other bakeries. Cake types and decoration are similar among these bakeries. In fact, most marketing strategies have been designed to shift cake purchases from the peak period to non-peak ones. For instance, Seefah Pattiseria offers 15 percent discount for a New Year's cake purchased before December 25. UFM Bakery House entices its customers with 5 percent discount for an order over 1,000 baht to be received before December 27.

The third group consists of numerous small bakeries that are scattered throughout the Bangkok Metropolitan Area (BMA). In general, price as well as quality of their cakes is perceived to be inferior to that of the second group. Their smaller sales volume was estimated to account for less than 10 percent of the total market.

The competition in the upcoming season of New Year's cakes was uncertain. Several bakeries in recent years had expanded their operations and if the forecasted slow market growth will materialize, intense competition based on price is likely. Some bakeries tried to avoid this situation, for example, by offering a low calorie cake. Many bakeries viewed this cake to have a low potential since it denoted inferior taste. However, if this new product would prove to be successful, it was certain that other bakeries would follow quickly.

## 6. Market research

Because of the economic uncertainty and Butter Cup's growth objective, a local market research firm was contacted to prepare the information for the Butter Cup management to plan strategies for the upcoming New Year's season. The research firm surveyed 300 Bangkok residents in addition to Butter Cup's existing customer file. Part of the information furnished by the research firm is discussed below.

## 7. Gift buying behavior

Thai consumers commonly agreed that the New Year's gift giving season lasts about two months starting from early December to the end of January. Despite the perception of a long duration of the gift giving season, most interviewees bought their gifts during New Year's week (see Table 5). This may be due to the intense promotion in stores and to the numerous parties organized during this period.

**Table 5: Gift Giving Period**

	Percentage of consumers %
December 31-January 3	60.1
One week before and after New Year day	20.1
Two weeks before and after	12.3
During Dec. to Jan.	7.0
Other months	0.5

**Table 6: Expenses for New Year Gifts**

Expense(baht)	Percent of respondents (%)
100-500	39.8
501-1,000	30.6
1,001-1,500	14.6
1,501-2,000	7.6
2,001-2,500	4.5
2,501-3,000	2.6
> 3,000	0.4

Table 6 shows how much money consumers spent on New Year's gifts. Their expenses varied from 100 baht to more than 3,000 baht. More expensive gift, such as gift baskets and cakes were the most popular New Year's gifts, especially among higher income groups who have a monthly income of more than 10,000 baht. Less income groups give cards and other cheaper gifts. Supermarket and grocery stores sold gift baskets during the New Year's season only. Attractive presentation and a combination of well-known brand name items were their main selling points.

## 8. Market Segments

In general, fruit gift baskets were the most preferable gift type followed by cakes, other gift baskets, and knickknacks (see Table 7). The selection of the New Year's cake was based on its taste, freshness, reputation and decoration, in addition to the familiarity with and convenience of the location of the store. Even though their buying behavior seemed similar on the surface, a detailed analysis of Thai consumers revealed the following differences:

**Table 7: Types of New Year Gifts**

Preference of New Year Gift		Choice between Cake and other gifts	
	Percentage		Percentage
Fruit basket	29.8	Mostly cakes	14.3
Cake	20.5	Mostly other gifts	59.0
Other gift baskets	17.7	About equal	22.0
Gadget	15.5	Other gifts only	4.7
Clothing	5.5	(do not give cake)	
Accessories	3.1		
Others	5.9		

## 9. Perishable versus non-perishable gifts

The long duration of the gift-giving season as well has influenced the preference of gift types. Cakes and food/fruit baskets are perishable and, therefore, must be delivered to recipients quickly. Because of severe traffic congestion in Bangkok, some consumers preferred non-perishable gifts. The gifts can be kept in the car and delivered at convenience. On the other hand, those who preferred perishable gifts

believed that they would be more welcomed by the recipient, as they could be shared among the whole family or all employees in an office. Cakes have some advantages over food/fruit baskets: the study showed that, at the same price range, cakes were preferred as words and other expressions can be added on the cake, which is not necessarily the case for other gift types.

### 9.1 Cake connoisseurs versus typical cake buyers

Cake consumption has not been integrated into the daily-life of most Thai consumers. Few families eat cakes regularly. This behavior leads to different gift-giving behaviors. Those who consumed cake regularly consider themselves connoisseurs who have extensive experience with cake made by several well-known bakeries. They buy cakes as a New Year's gift from only a few sellers whom they believed to be the best and to represent their expertise.

Naturally, they look down upon generic, mass market cakes. They are willing to pay more for quality cake. On the other hand, those customers who seldom consume cakes view all major bakery places to offer similar taste and quality. In a blind test, however, they preferred cakes made by only few leading bakeries. Attractive cake decoration, bakery reputation, and low price were their most important buying factors. In terms of cake decoration, this group was more willing to accept simple designs. However, package design prominently showing the name of a well-known bakery was crucial to them for demonstrating to a recipient the value of their gift.

Based on Butter Cup's customer data file, Table 8 shows the sources of Butter Cup's revenue from selling cakes. Cake connoisseurs counts for 8.5 percent of all Butter Cup's members. Last year, 32 percent of these connoisseurs bought cakes from Butter Cup, which generated 20.3 percent of its income from selling cakes. Although there is no information available concerning the size of this segment for other competing bakery operations, the Butter Cup management expects them to have a similar proportion.

**Table 8: Consumer Willingness to Accept Different Prices**

Price of 2-lb cake	Cake connoisseurs	Other consumers
280	25 <sup>a</sup>	189 <sup>a</sup>
300	40	137
320	71	123
350	92	117
360	120	111
380	100	100
400	112	66
420	98	32
440	91	10

a: Percent of sales volume using the current price at 380 baht as the base sales volume

### 9.2 Patrons versus non-patrons

Restaurant patronage was also important for consumers for the selection of the place to buy New Year's cakes. Consumers tend to buy cakes from restaurants that they visit regularly. Some consumers mentioned that since they were familiar with the quality of the restaurant's cakes, the risk in giving poor quality gift was eliminated. Some cited the traffic problems preventing them to venture to out-of-the-way bakeries. Others preferred to inspect cake decoration displayed in a restaurant before ordering it.



Interestingly, consumers did not patronize a single restaurant exclusively. They tended to visit a set of restaurants/bakeries. Table 9 reveals that connoisseurs regularly visited only 1 to 4 restaurants while others patronized 3 to 6 eatery places. For the latter group, cakes from this set of restaurants were perceived to have similar quality. Because of this factor, bakeries, which had outlets in supermarkets, shopping malls and office buildings tended to have an advantage.

**Table 9: Number of Restaurants Visited Regularly**

<b>No. of Restaurants Patronized</b>	<b>Connoisseurs</b>	<b>Cake Givers</b>	<b>Others</b>
None	5.4	10.3	52.4
1-2	40.8	15.7	33.3
3-4	40.1	39.4	10.8
5-6	7.5	29.5	2.5
More than 6	6.2	5.1	1.0

### 9.3 Company clients

Companies use New Year's gifts to show business appreciation to their clients. Gifts should convey the image of the company. Companies want their corporate logos and names to be on the gift to be reminded by their clients all year round. Therefore, cakes are considered less appropriate than other gadgets such as calendars and desk clocks since the company identification disappears after the cake is consumed. The survey shows that companies ordered two types of gift -- cheaper gifts for their general clients and more expensive gifts for important clients. Cakes of 2 pounds or larger were considered to be expensive gifts.

However, this market is dominated by premium firms that sell gadgets with personalized company logos. Premium firms send out catalogs to purchasing managers of companies. Their sales people do the follow up when any company shows interest. Companies generally buy a large number of gifts from a few sources. Most companies spend 20,000 - 100,000 baht on gifts. Because of their large order volume, they feel that they deserve better service such as free delivery, quantity and cash discount and other promotion offers.

## 10. Preference activities

Both Butter Cup's members and non-members were asked to indicate the activity they wanted most a bakery to do to make its New Year's cake more attractive. Different customer groups seemed to want different activities.

### 10.1 Butter Cup's Customers

Cake connoisseurs like exclusive gourmet cakes and more choices of elaborate cake decoration. Cake gift givers want more fancy packages, more outlets and customized cake decoration. In addition, they preferred FRANCHION to promote its bakery to the general public so that the quality of Butter Cup cake is more widely recognized. Those who do not typically give cakes like gift certificates that can be exchanged for cakes or other bakery items, free or nominal charge delivery service. Finally, the corporate sector prefers customized decoration, i.e. with their identification, delivery service, and discount.

**Table 10: Customers Preference on Activities**

	<b>Connoisset</b>	<b>Cake giver</b>	<b>Non-cake givers</b>
Phone order	1.6	0.4	6.2
Delivery services	2.2	2.4	12.3
Discount (10%)	1.6	2.2	3.9
Customised decoration	1.1	13.7	1.3
Gourmet cake	33.3	0.3	0.2
Fancy package	8.7	20.1	1.5
Gift certificate	1.2	1.1	25.2
New cake design	38.5	3.2	1.2
More Outlets	1.8	15.8	11.2
More familiar/advertise	1.2	22.2	2.5
Other	2.1	1.9	32.9
Total	100	100	100

## 10.2 Butter Cup's Non-customers

Butter Cup's greatest challenge is in gaining sales from non-customers. These people are resistant to buying from Butter Cup mainly because they do not know Butter Cup bakery or perceive difficulties in travelling to one of Butter Cup's restaurants. The research firm estimated that less than 5 percent of this group might become New Year's cake buyer from Butter Cup's if Butter Cup became better renown.

## 11. Marketing Costs

Poon Yindee estimated the costs of the different activities for which Butter Cup's customers stated their preferences. Table 11 itemizes the cost of these activities. In estimating these costs, complexities occurred, because the costs vary with the amount of business. For instance, an existing employee could be assigned to handle telephone orders if Butter Cup receives less than 50 call orders per day. This employee could coordinate between Butter Cup's bakery facility and its restaurants. If the number of calls would exceed the limit, an additional employee would be needed. Adding new outlets in supermarkets, shopping malls and office buildings is very expensive since Butter Cup has to rent space, build and operate retail stands, and give commission to the management of an outlet. In addition, the number of commercially viable locations is limited.

**Table 11: Estimated Marketing Costs**

Phone orders	50,000 baht <sup>a</sup>
Delivery person	15,000 baht <sup>b</sup>
A delivery motorcycle	23,000 baht
Accident insurance policy	
Customised decoration	5 baht per piece
Fancy package	20 baht per 2-4 lb cake
Gift certificate	10,000 baht per 5,000 certificates
Poster and pamphlets	18,000 baht for advertising in store
One additional retail outlet:	
a) Retail stand equipment	36,000 baht
b) One employee	6,000 baht per month plus 5% commission
c) Cake sample <sup>c</sup>	34,200 baht per month
d) Commission to the outlet owner	30% of sales revenue
Advertising in non-TV media	1,530,900 baht per week

Notes:

a: One employee handling 50 calls per day and telephone costs

b: Delivery cost for destination within a range of 5 kilometers from a CDC restaurant

c: Three 2-pound cakes allowed as free sample

To appeal to new customers, it was apparent that Butter Cup had to advertise through mass advertising. To gain sufficient market coverage, an advertising agency recommended Butter Cup to advertise in 4 magazines, 5 radio stations, and 3 newspapers which would cost 1,530,900 baht per week. Although this cost seemed to be high, the agency encouraged Butter Cup to do so to build its long-term reputation which would benefit the restaurant operation as well. Advertising on television was also recommended, but this is very expensive -- its cost is double to triple that of the above estimated costs. Poon did not believe that Butter Cup management would be willing to allocate the budget despite the fact that advertising on television could reach more audience.

## **12. Butter Cup's Goals**

In planning the marketing strategy, Poon Yindee realised that the success of a strategy for New Year's cakes would depend on its ability to generate the highest possible profit by increasing sales revenue and by expanding the number of cakes produced. Staring at the heavy traffic from the window of his office, Poon had to put together a plan within a few weeks for New Year's cakes to present to other members at Butter Cup for approval.

# TEACHING NOTES

## 1. Synopsis

In 1996, Thailand began to experience an economic downturn. However, Butter Cup just doubled its baking facility which would allow them to expand their business on cakes sold during New Year Season. With some production limitations and precarious consumer behavior, Butter Cup aimed to expand its sales volume and profits.

## 2. Issues

This case intends to cover the following issues:

- Marketing decisions under the constraints of production facility
- Seasonality of New Year's gift giving which requires a contingency plan to be able to respond quickly to the situation.
- Segmentation of Thai consumers who are influenced by local environment and their familiarity with a Western New Year's gift cake.
- Use of the product/market matrix in developing a contingency marketing strategy.

## 3. Assigned Questions

- Describe the nature of Thai consumers in buying New Year's gifts. How did this behaviour affect the sales volume of New Year's cakes? How many segments were there?
- What were opportunities and threats in the New Year's cake market?
- What were strengths and weaknesses of Butter Cup in serving the cake market?
- How was the relationship between Butter Cup's bakery facilities and the pattern of its sales volume?
- Recommend marketing strategies for Butter Cup to reach maximum sales volume and to utilise its full bakery capacity.

***Describe the nature of Thai consumers in buying New Year's cakes. How did this behaviour affect the sales volume of New Year's cakes? How many segments were there?***

In addition to typical factors affecting the buying decision, such as decoration, price, flavor and ingredients, New Year's cake buyers considered:

- Traffic congestion. Heavy traffic congestion had influenced Thai consumer behavior in selecting gift types. Perishable gifts such as cakes and fruit baskets requires more consumer effort than non-perishable gifts. Consumers had to make at least two trips to a bakery -- one to select and order a cake and another one to pick up. Once purchased, they must be delivered to the gift recipient quickly. On the other hand, non-perishable gifts could be kept in their cars and delivered at convenience.
- Familiarity with the bakery. Consumer patronage to a restaurant tended to determine the place that they would purchase New Year's cakes. Underlying reasons for this behavior were that consumers faced less difficulty in travelling to and from the bakery place. Also, they were familiar

with the cake flavor and quality so that their perceived risk in giving an inferior cake as a gift was reduced.

- Knowledge about the product. Connoisseurs wanted to show off their expertise when giving cake as a gift. They put more emphasis on ingredients, flavors, and decoration. Price was less important. On the other hand, non-connoisseurs used cake decoration and a well-known bakery name as a proxy of value of their gifts. Table 8 in the case shows the price elasticity of these two groups when buying cakes from Butter Cup. When the price reduced too low, connoisseurs bought less cakes. When the price increased to a certain level and the cake quality improved, they would buy more. On the other hand, non-connoisseurs demonstrated a typical price and quantity relationship, i.e., lower prices led to buy more cakes from Butter Cup.
- Corporate versus individual consumers. Corporate buyers wanted more service from the bakery. They liked to have cake catalogs, quantity discounts, and delivery service. In addition, to make giving cake more appealing to corporate buyers, it should somehow incorporate corporate identification to make it more memorable to the recipient.

From the above influencing factors, different market segments emerged in terms of a bakery's likelihood in convincing them to buy their cakes. As shown on Exhibit 1, there are four major segments can be distinguished as follows:

- Existing patrons. Customers who patronised a particular restaurant had a strong tendency to purchase New Year's cakes from its bakery than buying from unfamiliar shops. For this group, there are three subsegments, which are:
  - a) Cake connoisseurs who ate cakes frequently and perceived themselves to know a lot of cakes offered by various bakeries. They patronised the restaurants of the bakeries that they approved.
  - b) Limited experience cake consumers who bought New Year's cakes from the restaurant out of familiarity, convenience, and reputation of the bakery.
  - c) Non-cake givers that perceived limitations in giving cakes. However, if these problems were alleviated, they may decide to buy cakes. Then, the restaurant they patronized could be the most logical place for them to buy New Year's cakes.
- Patrons of other restaurants/bakeries. Each restaurant/bakery had a set of loyal clients. Likewise, these customers were loyal to a set of restaurants/bakeries. That is, they saw cakes from these bakeries as similar in quality. Other bakeries would have a harder time to sell to them. Therefore, for Butter Cup to lure customers from competing bakeries, they would have a better chance if Butter Cup was perceived to be at the same class as these competing bakeries. However, Butter Cup must overcome the consumers' resistance in terms of, for example, inconvenient locations and price differences. Three subsegments similar to the above-mentioned subsegments occurred.
- General population who either bought cake from high-end gourmet bakeries and small bakery shops or gave non-cake gifts. This group may need more convincing before they buy cake from a particular bakery.
- Corporate clients who wanted to personalize New Year's cakes to reflect and remind customers of their business appreciation. Their needs must be met to win over this group as discussed above.

***What were opportunities and threats in the New Year's cake market?***

There were numerous opportunities in this industry including:

- Inactive competitors. The demand of New Year's cake outstripped its supply especially during the peak period right before and after New Year's day. This caused bakery operators to concentrate on making enough cakes to meet sales orders. Marketing and promotional activities were largely ignored.
- Unsatisfied consumer needs. Because of the above-mentioned market situation, consumer needs were left unsatisfied. The market study conducted by Butter Cup reflected this sentiment. Individual consumers and corporate clients complained about lack of new cake decoration designs, delivery service, and trade credits.
- High industry growth rate. While the country GDP growth was less than 10 percent per year, the growth of the New Year's cake industry was much higher, i.e., 30-40% in the previous year and forecasted to be 15-20% for the upcoming years. This implies that giving cakes became more popular at the expense of other gift types. Competing in a growth market was much easier than the declining one.

The main threat of this industry is the slowdown in market growth. The New Year's cake industry was expected to slow down from the annual growth rate of 30-40 percent to 15-20 percent. The market downturn could lead strong competition among bakery companies. Many companies had increased their bakery capacities in response to strong market demand in the previous years. In addition, this market demonstrated quick and rapid imitation by competitors. This reduces the effectiveness of a marketing strategy based on its uniqueness. Therefore, to be successful in this market, Butter Cup's marketing strategy must be flexible in responding to the competitors' imitation.

***What were strengths and weaknesses of Butter Cup in serving the new cake market?***

Butter Cup's strengths, i.e., existing and potential ability to compete in the market could lie in two aspects. First, from the perspective of its customers, Butter Cup must process some benefits leading to their patronage. Butter Cup competed in the market where there was only one dominant leader, S&P, which controlled over 50 percent of the market share. The rest was composed of over 20 bakery operations. Despite this fact, to a certain extent, the market was somewhat inelastic, i.e., each restaurant/bakery, including Butter Cup, had its own patrons. These patrons seemed to have a set of restaurants that they went regularly to and bought New Year's cakes from. This could be the familiarity with Butter Cup's operation such as cake quality, location convenient, and services.

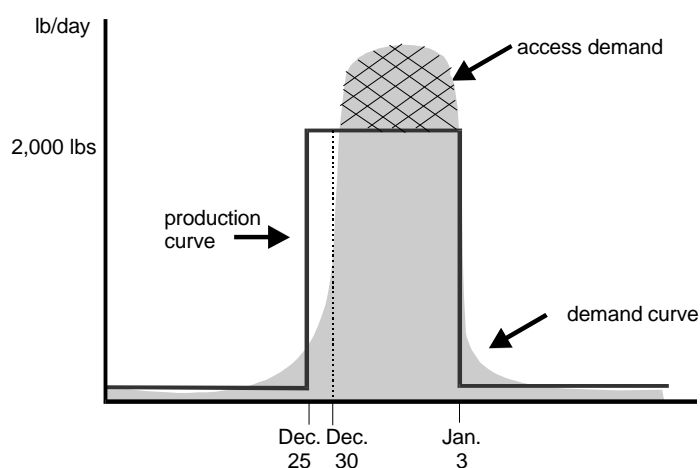
Second, its customer data file could turn to be a valuable marketing tool in communicating with its existing customers. Depending on the amount of information collected, Butter Cup could be able to use their past behavior in buying New Year's cakes from Butter Cup to segment and tailor a marketing strategy that would fit the need of each group.

The weaknesses of Butter Cup has for increasing its New Year's cake sales were numerous. These included:

- Limited locations. Traffic congestion and insufficient parking space were common deterrence for Bangkok consumers to visit a particular location. While some other bakery stores had additional outlets in supermarkets, shopping malls and office building to increase the convenience for consumers, Butter Cup's customers only could pick up their cake orders from one out of five Butter Cup's restaurants. Providing more convenience by expanding into different outlets could be proven to be impractical in the short-run even though it was worth exploring. This would add more costs in operating outlets and in paying commission to the management of supermarkets, shopping malls, and office buildings. In addition, there may not be commercially viable space available since this strategy had been commonly practiced by various firms.
- Relatively unknown bakery. Many consumers depended on the reputation of bakery firms as an indication of prestige. Package displaying a prominent bakery name and logo was a crucial signal to both gift givers and receivers. Based on this behavior, Butter Cup was at disadvantage. The quality of their cake could be compatible to those of more well-known bakery places; however, some consumers did not want to present Butter Cup's cakes as a gift, because they were concerned that the recipient was not aware of Butter Cup's reputation.
- Insufficient skilled cake decorators. The bottle neck of Butter Cup's operation lied in the number of capable cake decorators available, especially for the more elaborated designs. Offering too many sophisticated cake decorations in a large volume was impractical. Training and hiring cake decorators may not be accomplishable in a short period.

***How was the relationship between Butter Cup's bakery facilities and the pattern of its sales volume? How did this relationship affect Butter Cup's sales objective?***

Butter Cups production was fixed at 4,000 pounds per day, which expanded from the last year's production of 2,000 pounds daily. It allocated this facility to produce cakes exclusively during December 25 to January 3 (shown as the production curve on Figure 1). Butter Cup sold 7.3 million baht or about 36,306 pounds during the New Year's season last year. On the other hand, individual consumers and corporations preferred to buy during the New Year's period, i.e., (from Table 5 in the case) 60.1 percent of consumers bought new year cake during December 30 to January 3 (shown as the demand curve on Figure 1). Butter Cup's experience told them that it could not make enough cakes to meet the orders during this peak sale. It had to turn away some orders during this time (shown as the access demand on Figure 1).



**Figure 1**

Therefore, in order to have a higher sales volume and more profits, Butter Cup needed to create a marketing strategy that would shift some of the demand during this two weeks to other periods when its production capability was available. In addition, because of the fact that the company doubled its production capacity, it had to find ways to at least double its sales volume. In selecting these strategies, costs must be considered, since they will affect Butter Cup's bottom line.



***Recommend a marketing strategy for Butter Cup to reach maximum sales volume and to utilise its full bakery capacity.***

**Target market selection:** The information from the market survey and customers suggests that it is more effective for Butter Cup to direct its effort to its existing restaurant clients first. These are the underlying reasons to support this recommendation:

First, restaurant/bakery clients tend to patronize its New Year's cakes already. Familiarity with the quality of cakes and convenience seem to be the main factors of their support. These clients would go to the restaurant regularly; therefore, they did not have to invest more time and effort in travelling to a bakery to place and pick up an order. In addition, many had bought cakes from the restaurant -- they were more aware of the quality of the cake that they would give as a gift.

Secondly, last year less than one third of Butter Cup's clients bought New Year's cakes from Butter Cup. (See Exhibit 2) Only thirty-two percent of all Butter Cup members who were cake connoisseurs bought its cakes, forty-five percent of cake gift givers and nineteen percent of corporate did so. These three groups accounted for 84.3 percent of Butter Cup's sales volume of New Year cakes.

Thirdly, the cost for Butter Cup for appealing to these groups was relatively lower compared to the cost to reach other groups. To get more sales from non-Butter Cup's clients, it had to promote its bakery operation and to become better known: especially among cake gift givers. A well-known reputation was crucial to their buying decision. In addition, Butter Cup may have to expand its outlets to increase location convenience to those who did not visit Butter Cup restaurants regularly. These activities were expensive (see Table 11 in the case).

On the other hand, Butter Cup's cake connoisseurs might buy more if Butter Cup added gourmet cakes and new decorations. Butter Cup's cake gift givers might be willing to purchase more cakes if fancy package and customized decoration were also provided. Likewise, some Butter Cup's non-cake givers might switch to give cakes if their concern about recipients' preference was diminished by allowing the gift certificate to be used for other Butter Cup's products as well.

**Contingency plan:** Despite the fact that Butter Cup should concentrate on its existing clients, if Butter Cup wanted to reach its maximum sales potential given the limitation of its production facility, i.e., 2,000 cakes a day for 12 days, Butter Cup might have to target other segments as well. Appealing to only existing customers may not be sufficient. However, as previously stated additional activities that Butter Cup might have to do to stimulate sales from non-restaurant clients were expensive. In addition, other bakeries may step up their sales efforts or fight back to keep their clients. Thus, Butter Cup's strategies must be flexible. A contingency plan is required to reach this objective.

**Recommendations:** The information in the case is sufficient to allow students to manipulate figures on sales potential and estimated costs in order to reach the above-stated objective. Several strategies were possible. Students can be assigned to come up with recommended strategies. Comparing their strategies and their assumptions will reveal the complexity and uncertainties in marketing decision.

**Exhibit 1:**

	CDC patrons	Other bakery patrons	General population	Corporate sector
Connoisseurs				
Cake gift givers				
Other gift givers				

**Exhibit 2:**

	CDC patrons	Other bakery patrons	General population
Connoisseurs: a)% of members <sup>a</sup> b)% of sales <sup>b</sup>	2.7% 20.3%	15%	1%
Cake givers: a)% of members b)% of sales	21% 48.2%	22%	N/A
Other gift givers a)% of members b)% of sales	1.8% 2.7%	42%	N/A
Corporate sector a)% of members b)% of sales	1% 15.8%	21%	N/A

Notes:

a: Percentage of total CDC members who bought new year cakes from CDC calculated from 8.5% of members were connoisseurs x 32% of connoisseurs who bought CDC cakes.

b: Percentage of CDC cakes sales from this group.

	CDC patrons	Other bakery patrons	General population
Connoisseurs	<ul style="list-style-type: none"> <li>• Unique cake</li> <li>• Accept higher price</li> <li>• Substitutable cakes =1 to 4 bakeries</li> </ul>	<ul style="list-style-type: none"> <li>• Same as CDC's connoisseurs</li> <li>• Unfamiliar with CDC operation</li> <li>• Trouble in travelling to CDC's restaurants</li> <li>• 15/unknown</li> </ul>	<ul style="list-style-type: none"> <li>• Buy cakes from gourmet bakeries</li> <li>• Dislike mass market image of bakeries</li> <li>• 1/unknown</li> </ul>
Cake gift givers	<ul style="list-style-type: none"> <li>• Want something new</li> <li>• More price sensitive</li> <li>• substituting bakeries =2-3</li> <li>• 45/43/</li> </ul>	<ul style="list-style-type: none"> <li>• Same as CDC's cake giver</li> <li>• Unfamiliar with CDC</li> <li>• Travel difficulty</li> <li>• 22/unknown</li> </ul>	<ul style="list-style-type: none"> <li>• Likely to buy from small bakeries</li> </ul>
Other gift givers	<ul style="list-style-type: none"> <li>• Difficulty in delivery</li> <li>• Afraid that recipients did not like cakes</li> <li>• 41/4</li> </ul>	<ul style="list-style-type: none"> <li>• Same as CDC's other gift givers</li> <li>• 42/unknown</li> </ul>	<ul style="list-style-type: none"> <li>• Same as CDC's other gift givers</li> <li>• Unavailable market size</li> </ul>
Corporate sector	<ul style="list-style-type: none"> <li>• Cakes with company name</li> <li>• Cake catalog</li> <li>• Delivery service</li> <li>• Quantity discount</li> <li>• Prefer larger cake</li> <li>• 2/21***</li> </ul>	<ul style="list-style-type: none"> <li>• Same as CDC's clients</li> <li>• 21/unknown</li> </ul>	<ul style="list-style-type: none"> <li>• N/A</li> </ul>

Note: 15/33/24 indicates that 15% of CDC members were connoisseurs, 33% of the connoisseurs bought new year cake from CDC which accounted for 24% of CDC new year cake sales.

**Exhibit 3:**

	Revenue	Cost	Profit
Existing Clients:			
a) Connoisseurs			
(price/cake x			

Pwce of 2 lb cake	with experience consumers	Inexperienced consumers
280	25	189
300	40	137
320	71	123
350	92	117
360	120	111
380	100	100
400	112	66
420	98	32
440	91	10

- a: 13% of CDC business from non-members
- c: An average connoisseur bought 2 2-lb cakes.
- d: An average cake giver bought about 1 2-lb cakes.