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**SWP 35/92 GOLDSMITHS FINE FOODS - CASE STUDY
AND TEACHING NOTES**

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with

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Case Study: Goldsmiths Fine Foods

A case study prepared by Peter Cook, MBA 1991, with help from Michael Jolley and David Priseman, under the direction of Robert Brown. The case is not intended to be either a good or bad example of management practice, but simply to stimulate class discussion on the difficulties of growing a wholesale catering business.

GOLDSMITHS FINE FOODS 1

HOW DO MR NICE AND MR NASTY BUILD A BUSINESS?

Mark Goldsmith and his business partner Simon Hersch had in their own words been trained as "typical IBM type corporate employees" during their period of study at UMIST. They both graduated with degrees in management sciences, but the cosy life of corporate employment was not for them.

As students short of cash and dissatisfied with the meagre wages they received as door-men in the students union, they started supplying the University with portioned cakes sourced from "Roberts Fudge Factory" - a small London-based manufacturer. Starting with a loan in April 1985 of £400 and working one day a week, they turned over £12,000 by July 1986. With cash on delivery payment, the business was self financing and needed no borrowing.

In August 1986, having thought long and hard about their products, markets and competitors, possible financial returns and about what they had to offer as a business, they took the bold move of taking the venture onto a full-time basis. And this was despite the good employment opportunities open to both Mark and Simon. Both were only 23 and yet had a good range of experience. Mark had worked as an advertising sales and feature journalist and as a software designer for a London drinks company, while Simon had been a group sales leader for Avon cosmetics and a trainee merchandiser for Marks and Spencer. For their degrees, Simon had specialised in accounting and financial control and Mark in marketing and humanities.

To get a grounding in the establishment of a new business, Mark took the Graduate Enterprise Programme at Cranfield School of Management. Both

Mark and Simon used the Graduate Enterprise Allowance scheme to provide the bulk of their income in the start-up year.

The basic business idea was to act as catering wholesalers specialising in the national distribution of health conscious, impulse purchase food and drink products to catering establishments and specialist food shops. Differentiation was to be achieved by selling attractive products with no additives, little animal fat, long shelf life, portioned and giving a bigger margin to the retailer than Kit-Kat or Mars Bars.

Their mission statement in their first business plan read "to supply additive free food and drinks to catering establishments and specialist food shops in Manchester and Yorkshire in order to enable them to increase their contribution per customer served".

By September 1986 they had four suppliers, 56 customers all in the Manchester to Leeds area, cheap but adequate premises in an old textile mill in central Manchester and weekly sales of £1,000. All deliveries were made by Mark and Simon using their own cars with a further student helping out a couple of days per week. However they had great aspirations. By February 1987 they aimed to have 150 customers, sales per customer of £20 per week and no supplier accounting for more than 40% of turnover. A big fear was that if they lost a major supplier this could finish the business. Customers unable to get that product from Goldsmiths might then cancel orders for other smaller product lines.

Within two years their aim was 500 customers (half in London), sales per customer of £30 and no supplier accounting for more than 10% of turnover.

Mark was to concentrate on sales and new products, Simon on financial control and supplier negotiations. Mark explained "I enjoy selling and find it a challenge. I helped design our sales leaflet which has worked well (Appendix 2), but I hate collecting money and you really need an aggressive person for that, Simon's good on financial control and in harassing credit customers on the telephone. So I'm Mr Nice and he's Mr Nasty!"

Profit projection for the year ending 1 August 1987 was as follows;

Net Sales	118,168
Cost of goods sold	88,626
Gross Profit	29,542
Expenses:	
Labour and remuneration	8,840
Other expenses	9,121
Profit Before Tax	11,581

Goldsmiths four suppliers at this time were all small recently formed businesses. None had been in existence for more than three years. Robert's Fudge Factory was based in London and supplied a small range of fudge, caramel and coffee cakes. They accounted for 60-70% of Goldsmith's sales. The California Cake and Cookie Company were Glasgow based, accounted for 10-15% of sales and supplied cookies, carrot and banana cakes. The Scott's Kitchen in Motherwell supplied a range of rich gateaux providing Goldsmith's with 15-30% of weekly sales. The fourth supplier had only recently been secured. The Earthstore was Lancashire based and supplied organic breads, barmcakes and cheeses aimed at the most health conscious customers. With this particular product Goldsmiths could explore the potential for sales to health food shops. Coffee and flavoured milk drinks were further possibilities. A margin of 20-30% was taken on all these products and Goldsmiths were negotiating sole distributor agreements with

Robert's Fudge Factory (for all of North England) and with the two Scottish suppliers for all of England and Wales.

They knew the "delivered catering wholesale" market was huge, but they didn't know how well their unusual products would be received. Also the market was split into lots of segments. The largest customers were probably the large scale contract caterers such as Compass Services, part of Grand Met, who were expanding to take over canteens previously operated by local councils and by companies in-house. Sales to these could be large, but on credit. Theatres, educational institute coffee bars, coffee shops and lunchtime snack bars were already important customers and there was huge potential to sell to more of these outlets. These customers paid cash on delivery or took very short periods of credit, but placed small orders (over £30 per week was unusual). Delicatessens and health food shops were a very small segment. Other possibilities were conference centres and pubs. Both of these were large markets. However the demand from conference centres was very sporadic and all on credit. Only up-market pubs found they could sell Goldsmith's unusual products.

There were very few direct competitors in the Greater Manchester area in the mid 1980's. The major competitors were traditional snacks (e.g. Mars Bar, Kit Kat). These gave only small margins to the retailer (approx. 10%), but were very popular with the general public. Other competition included local bakeries, home made produce and other catering wholesalers. In general these were all suppliers of traditional products and so did not compete in the portioned, health conscious snack market. Mark and Simon had confidence in the fact that they were carving out a new niche in the market.

By the end of April 1987 they could claim to have been proven correct (see Appendix 1). For the period 1 August 1986 to 30 April 1987 sales had reached £63,618 and the business was in profit. A range of additive free, attractively packaged crisps had been successfully added to the range. However organic breads and cheeses were proving slow to take off. The economy was booming and growth opportunities were being considered by Simon and Mark. Firstly should they make their move for the London market now? Should one of them concentrate on London or should they start employing people to develop the market? Secondly they had thought through in detail the possibility of taking up a licence to supply catering in a wine bar. Clearly some of their cafe and wine bar customers were making big mark-ups on the products Goldsmiths supplied, so why not get their margin as well? Providing catering services was another related possibility and an opportunity would soon be available to provide items for functions at the Royal Northern College of Music using the wine bar kitchen facilities. If they were to take up these opportunities decisions would be required soon.

APPENDIX 1.

Profit and Loss Account for period 1 August 1986 to 30 April 1987.

Sales		63,618
Cost of Sales		47,606
Gross Profit		16,012
Overhead Expenses:		
Transport costs		1,453
Telephone		1,327
Motor expenses		3,883
Motor depreciation		2,270
Bank interest		288
Other expenses		3,141
Profit		3,650
Graduate enterprise allowance		983
Net Profit		4,633

Balance Sheet as at 30 April 1987

Fixed assets			7,504
Current assets			
stock	2,835		
debtors	5,995		
bank	1,005		
		9,795	
Current liabilities			
overdraft	2,254		
creditors	6,747		
loan	3,081		
		12,082	
			(2,287)
			<u>5,217</u>
Capital employed			
Partners Capital			5,217

EARNING
BREAD
MORE
PIECE
IS A
CAKE
OF



GOLDSMITH'S

CALLING WHOLESALE
WHO ARE THE LEAD AND YOUR NEEDS

GOLDSMITHS FINE FOODS 2

MANAGING GROWTH

In June of 1987 Mark and Simon took up the wine bar catering licence and from it supplied catering contracts for The Royal Northern College of Music. For various reasons the wine bar licence was a failure. The costs of maintaining a catering service had been underestimated. However they got out of the cafe business quickly with a loss of only £1,000 on the venture. This may not seem a lot of money, but it was a bitter blow to Mark and Simon at this early stage in their business. After all the loss was equal to a quarter of their entire profit for the last accounting period. To their credit they learned from the experience. Mark, sounding like the Chairman of Grand Met, says "it's a very good lesson on what happens if you try to go outside your core business!"

The loss on the cafe was more than recouped, however, by the opportunities created by the obvious need for pre-prepared food items for buffets. They found a huge demand for catering items for special events and went on to supply buffets for the 1988 Snooker World Championships in Sheffield. Despite this huge demand they withdrew completely from the preparation of food items. It was time consuming and outwith the core business they had chosen. Instead they found suppliers of these items and returned to their proven skills as wholesalers. From then on Goldsmiths stuck to their core business as wholesalers of health conscious portioned snacks. For example in 1989 they costed out the possibility of supplying supermarkets with their products. They would have to risk an extra £20,000, so with the wine bar experience highlighting the risk in diversification they rejected the idea.

During 1987 and 1988 the poor sales of organic products continued and eventually they were dropped from the range. The demand for organic food was not growing fast and the Health Food outlets often gave prominence to their own branded products.

Feeling the need for more experience in the management of the business they asked a 55 year old financier and a 60 year old food marketer to join the business as limited partners.

Getting back to their core business they expanded their geographic coverage to include Liverpool and Birmingham. Savouries (samosa's and bhaji's) were added to the range. Goldsmiths were the highest price supplier of these, but found good markets in non price sensitive office canteens and "snobby theatres". This was the first truly perishable item they had stocked so a small cold store was added to their equipment. The year to 30 April 1988 was a year of investment. Two van drivers were hired so Simon and Mark were now free to manage the business. An office worker was also employed. Two vans were leased and £10,000 spent on attendance at exhibitions and on general promotion. The London market was ignored for the meantime - they were too busy trying to cope with the crises and challenges of existing Northern markets.

Sales grew strongly to £216,000 for the year, but partly due to the cafe set-back and partly due to the heavy investment expenditure profit was negligible (see Appendix 1. for 1988, 1989, 1990 financial results). Bank loans were obtained to finance the growth in fixed assets and working capital.

In the year to 30 April 1989 it was hoped that the previous years dramatic sales growth could be repeated. Sales were forecast at £450,000. However these estimates were too optimistic. The business was reaching a plateau with its

existing products and geographic coverage. Sales were £327,000. Staff numbers expanded again and another store was rented. A major problem of seasonality of demand was appearing with educational institutes closed for the summer and cafe sales of cakes falling in the warmer weather. However the major problem for the business during this period was lack of cash. Although much of the business was cash on delivery and so was self financing, credit business to large contract caterers was on the increase. At 30 April 1988 the business was technically insolvent. To allow the business to continue trading the partners invested £30,000 of their own family capital into the business. However it was clear that as the business grew they could not keep this up as their personal means were limited. Mark and Simon now wondered if a partnership was an appropriate business structure.

The year to 30 April 1990 was a watershed for Goldsmiths Fine Foods. A large selection of unusual, additive free canned juices and bottled waters were added to the range. This had a huge effect on turnover (drinks added sales equal to the existing cakes business) which leapt to £522,000. A limited delivery service to London was started and another salesperson employed. Goldsmiths were now seen as important in the market and as a well established business were attracting more orders from the contract caterers such as Compass (still part of Grand Metropolitan) and Garden and Merchant. Furthermore in each city in the North and Midlands they had secured the same loyal customer base in educational establishments, cafes and theatre's. What were once unusual products now had wide appeal. However as the year drew to a close the business faced a series of crises.

Large clients were accounting for an increasing proportion of Goldsmith's sales. They demanded substantial credit, but Goldsmith's lacked the assets on which to secure the debt needed to finance large debtors. How could they cope with this

and the finance needed to support the growth in sales expected? Should they go for more business from contract caterers or should they concentrate on getting more cafes, pubs and education outlets?

Goldsmiths moved out of their old mill building in central Manchester and into a purpose built leased warehouse of 1500 sq.ft. in June 1987. However by early 1990 the expanding business was renting space in three warehouses owned by other companies in Manchester. They knew of a large new warehouse ideally situated on an industrial estate in Salford near the M602 which would allow them to operate from one site rather than four. However the rent alone was five times what they presently paid.

Operating procedures hadn't changed since 1988 and coordination of all operations was poor. Vans often delivered to the same part of town several times per day rather than doing all deliveries in one area in one trip. Mark summed up the situation: "We don't have systems on which our staff can rely to coordinate operations and ensure customers needs are met. Instead we rely on individuals to sort things out for themselves and to communicate what they have done to the next person down the line. It's worked until now, but recently when several staff were on holiday we simply couldn't cope. Our big customers are bound to notice soon. Also our record keeping is poor. We need a new computer system". Linked to this issue of control was how to manage a business vastly different from the one they had set up as a sideline to earn a bit of spending money whilst at University. Could Mark afford to stay in front line sales and Simon in the nitty gritty of accounting and book-keeping?

The biggest crisis involved the California Cake and Cookie Company. Goldsmiths were sole distributors for their product south of the border, but had only started limited deliveries to the huge London market. They were convinced

that the best way ahead was to build up the business in the north before making a major investment in the south east. The experience of losses in the cafe and catering ventures in 1988 had convinced them of the need to learn to walk before they tried to run. However the California Cookie people were impatient to expand and as a result set up their own sales and distribution base with six staff in London in direct competition to Goldsmiths. This was the biggest competitive threat Mark and Simon had faced since launching the business and they set about stepping up their deliveries to London. In the initial stages of the crisis Mark drove to London every week with a loaded van, stayed at his parents home while he spent two days delivering, before driving north again to Manchester. However they couldn't keep this up forever. For one thing the rest of the business was being neglected. Should they take the plunge and invest in a permanent base in London? Should they try to buy out the California Cookie London distribution operation? What future did they now have in London?

APPENDIX 1. FINANCIAL RESULTS 1988-90.

Profit and Loss Accounts for years ending 30 April.

	<u>1990</u>	<u>1989</u>	<u>1988</u>
Sales	522,439	327,328	216,217
Cost of Sales	<u>371,203</u>	<u>244,627</u>	<u>160,602</u>
Gross Profit	151,236	82,701	55,615
Overhead Expenses:			
Wages	43,427	22,114	9,357
Transport	19,249	4,574	5,183
Van hire	4,162	4,196	420
Motor expenses	5,399	10,524	7,074
Depreciation	6,337	6,703	5,863
Leasing	2,767	2,170	574
Interest	2,447	1,393	1,346
Rent	5,231	5,200	4,591
Exhibition/Promotion	640	(1,808)	10,305
Other expenses	11,956	7,056	9,989
Total Expenses	101,615	62,122	54,702
Profit before grants and interest income	49,621	20,579	913
Interest received	6	210	0
Grant received	0	4,695	4,885
Net Profit	49,627	25,464	5,798

Balance Sheets as at 30 April

	<u>1990</u>	<u>1989</u>	<u>1988</u>
Fixed assets	12,129	18,517	17,443
Current assets			
stock	19,850	7,626	2,682
debtors	69,491	36,939	28,245
bank	2,623	2,652	2,992
Current liabilities			
overdraft	12,918	6,919	5,701
creditors	42,183	32,323	35,998
loans	0	0	16,063
Net current assets	36,863	7,975	(23,843)
Net Assets	48,992	26,492	(6,400)

Capital Employed

Partners capital and reserves	18,992	(3,508)	(6,400)
Investors funds	30,000	30,000	0

GOLDSMITHS FINE FOODS 3

BIG BUSINESS

In the scorching summer of 1990 the sun shone on Goldsmiths Fine Foods. In the sweltering heat the new line of canned juices and bottled waters sold well above expectations and turnover for the year to 30 April 1991 soared to £1.08 million. For the period to August 1991 monthly turnover was between £140,000 and £170,000 and in October reached £200,000 so that annual turnover was expected to break the £2.0 million barrier for the year to April 1992. The new sales were mostly on credit terms to the contract caterers who were finding this type of product increasingly popular in office cafeterias.

During the year Goldsmith's took the plunge and made a purchase offer for California Cake and Cookie Company Distribution in London. However the asking price proved to be too high. But as the UK recession deepened the California Cookie Distribution operation began to run up losses and was bought by Goldsmith's in May of 1991. Staff numbers were cut from six to three and the London operation began to notch up profits of around £2,000 per month selling the full range of Goldsmith's foods.

In February of 1991 they moved the whole company to a new single site warehouse and office on the Salford Industrial Estate. This increased rent charges fivefold, but allowed vastly improved coordination within the business.

As from April 1991 the company became a PLC with Mark and Simon holding the majority of shares and with the two limited partners becoming non-executive directors and minority shareholders. Simon became Managing Director and Mark, Chairman. This structure was judged to be most suitable for the company

as it allowed the introduction of share capital from outwith the business to allow it to grow without the need to secure Bank debt. Also it limited Simon and Mark's liability to the risk inherent in a large business trading with increasing amounts of credit. In the long term it creates the possibility of floating the company on the Stock Exchange.

With the centralisation of operations and most of the staff in the new facilities at Salford, Mark took the opportunity to tackle the problems of procedure and information flow in the business. A new computer system was installed with the capacity to handle business five times greater than at present. The system being developed will allow orders to be analysed by area, by customer and by product and so provide vital information for the planning of marketing effort and to assess the performance of new products. To improve coordination between staff and to formalise procedures so that staff have more time to provide better service and to create new business Mark has launched an initiative called "Operation Organise". This simply lays down standard procedures for the flow of information from telesales staff to the warehouse and to the drivers and back into telesales with the aim of firmly establishing a two way flow of information. Mark, now with a sales team of three to whom he aims to delegate, has allocated two days per week to this task. Mark emphasises that he's not just trying to lay down procedures, but is also trying to change the culture of the company away from a "seat of the pants, survivalist" approach and towards a more formalised and forward looking policy.

There are now a total of 21 staff;

Sales (including Mark)	4
Telesales	2
Administration (including Simon)	4

Warehouse	2
Drivers- London	3 (plus one part-time)
Drivers- Manchester	4
Student (part-time)	1
Finance manager/accountant	1

During 1990 the business diversified slightly into distribution for British Rail. Under this contract they took over the nationwide (and especially the London area) distribution of most frozen goods for BR catering, which used to be contracted to Booker's (one of the UK's largest catering distributors). Goldsmith's were offered the contract because BR felt they were not getting the standard of control and service which they could get from a local distributor. Keeping their traditional wariness of diversification, Goldsmith's have kept all the costs of this new venture variable. The cold store and extra van required are both rented. About 15% of turnover is now coming from this source and Mark would like distribution turnover to reach £1.0 million in the next four years. They feel there is massive potential in this area, especially for the distribution of catering materials to motorway service stations.

The Future

In mid 1991 Mark and Simon probably had a better idea of the direction their business would develop than at any point in the previous six years. They wanted the core business to grow to between £5-£10 million turnover in the next four years with the distribution sideline contributing another £1.0 million. Floating on the Stock Exchange was another long term aim. As far as new markets were concerned they envisaged UK wide coverage for their core business and as health foods became more acceptable, to increase sales to the enormous pubs sector and to other leisure outlets (e.g. amusement parks, theme parks)

However there were still some worries for the future. The reliance on large catering customers meant funding high levels of credit and the risk of bad debts, especially during the continuing recession of 1991. On the other hand, the growth of contract catering with the wave of 1980's privatisations, had been one of the reasons for their success (see FT article - Appendix). Bringing in new investors to allow the business to grow also brought new pressures and the threat of loss of control. "Operation Organise" was a bold move to cope with the size of the business, but could they cope if the business doubled in size again over the next three years? Could they get the good management required to help run a bigger business? Also as they got bigger and more noticeable would existing large wholesalers compete more fiercely and would "copy cat" companies develop to sell other similar health conscious impulse purchase foods? A central worry was whether or not their "distinctive competence" could be easily imitated. However at present with good profits, an expanding market and a clear short term strategy Mark and Simon looked back at what had been a successful start-up period for their business and looked forward to an even greater future. What could go wrong for the dynamic duo!?

APPENDIX 1. FINANCIAL RESULTS YEAR ENDING 30 APRIL 1991

Profit and Loss Account

Sales	1,080,775
Cost of sales	780,692
Gross Profit	300,083
Overhead Expenses:	
Wages	90,247
Transport	22,533
Van hire	1,642
Motor expenses	29,280
Depreciation	7,904
Leasing	4,857
Rent	11,331
Exhibitions/Promotion	1,584
Interest	4,621
Other expenses	25,746
Total Expenses	199,745
Net Profit	100,338

Balance Sheet

Fixed assets	35,312
Current assets	
stock	59,065
debtors	250,986
bank	0
Current liabilities	
overdraft	53,291
creditors	146,046
leases	25,034
Net current assets	85,680
Net Assets	120,992

Capital Employed

Partners capital and reserves	90,992
Investors funds	30,000

The sector is buoyant, reports Jim Kelly

The caterers are growing fat

EVEN FOR an industry well known for bucking recessions, contract catering is witnessing remarkable growth, with a 21 per cent increase in outlets, and a 35 per cent increase in meals served since 1988, according to the latest survey by the British Hospitality Association.

The sector boasts a workforce of 90,000 and an annual turnover of £1.4bn; a far cry from its roots half a century ago when the law forced employers with more than 250 staff to provide "wholesome meals at reasonable prices" to boost morale.

Several factors have kept the sector buoyant in the current recession, leading many observers to believe that contract catering is the natural base from which, eventually, "total facility management" will evolve.

While many contract caterers are consolidating their market in the recession and refusing to dilute their expertise and energies by diversification, there is little doubt about the trend for the 1990s.

Gardner Merchant, one of the big three with a turnover of £751m, provides a typical example. In 1991 it took on a contract at BBC Wales' Cardiff headquarters, with a turnover of £1.2m. Nine services are pro-

vided within the building: printing, mail-room, catering, ground maintenance, switchboard, porters, and two sub-contracts provide maintenance and security.

The trend is bolstered by the sector's current strength. Sutcliffe Catering, also among the big three with a £340m turnover, claims cost savings of 10-20 per cent over client-run contracts and a 10 per cent improvement in uptake. In the depths of recession, these savings are irresistible. Fixed price contracts are on the increase, putting a high risk factor on the caterers, as against the traditional management fee system where the client meets costs.

Government policy on privatisation, the internal market in the health service and reform of education services have all provided spectacular growth. Figures from the British Hospitality Association show a jump from 250 healthcare outlets in 1989-90 to 337 in 1991-92: similar figures for the ministry of defence are 68 and 190; and for state education from 262 to 450.

The Food Safety Act has also played a significant role, placing on employers the need to demonstrate "due diligence" in the event of food poisoning as well as enforcing a code on training, temperature con-

trol and storage. Many companies now use contract caterers as a form of insurance.

While contract caterers originally helped boost wartime morale, many companies now employ caterers to enhance company image. Compass, also in the big three with a £265m turnover, found in a survey last July that 46 per cent of respondents saw company catering as a perk, valued more highly than a company car.

Innovative ventures are becoming more common in the sector as is the search to find new markets. Sutcliffe has set up a joint venture with BP Oil at Hemel Hempstead, north of London, using the petroleum company's facilities to provide general catering and a turnover of £100,000. New markets can range in from British Telecom's 600 outlets to the Youth Hostel Association or P&O Ferries.

Diversification is not limited to the big three. Kent-based Russell & Brand, with a 1990 turnover of £7.58m, has picked up 100 contracts in three years and offers a total facility management package including 24-hour close circuit TV security.

Perhaps the real challenge facing the sector as a whole is whether it can protect its market in a post-recession economy.

FT
Feb 20
1992

GOLDSMITHS FINE FOODS

TEACHING NOTE FOR PART ONE

1. Get class to describe Goldsmiths competitive strategy/distinctive competence;

- * portioned impulse purchase snacks
- * long life
- * healthy - no animal fat, no additives
- * unusual, innovative products
- * van delivery
- * tie-in retailers by giving them bigger margins than on kit-kats and mars bars, etc.,
- * sole distributor agreements
- * in a new niche market first
 - few competitors
 - expanding
- * mostly cash on delivery sales at this stage in growth, so no cashflow problems (usually the killer of small start-up businesses). Also means low debt and interest payment requirements.
- * fast stock turnover
- * low overheads -only need a shed, a van and a phone.

Back up all this with look at P & L cost structure and Balance sheet ratios (debtor days, creditor days, etc.,).

2. The "core business" issue.

Ask what is their core business.

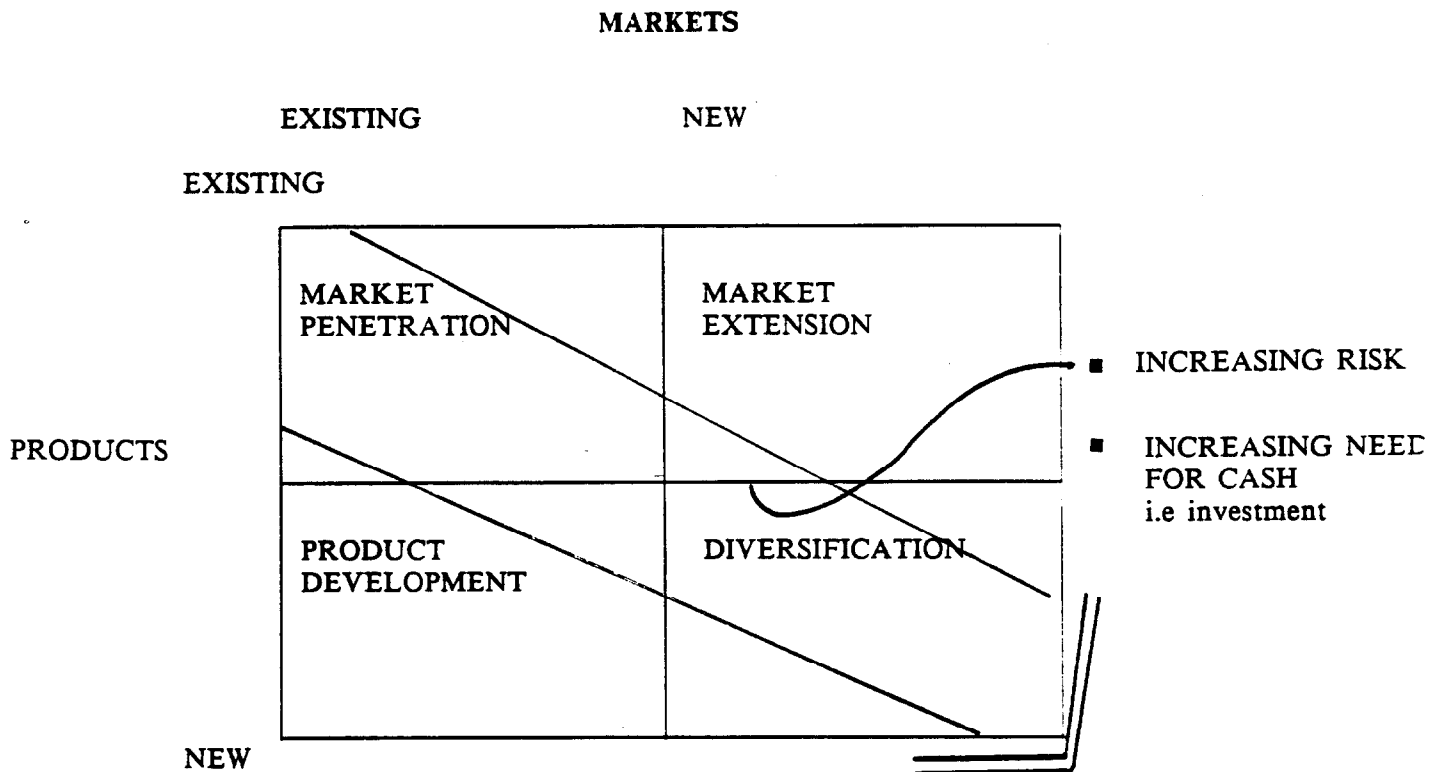
Is it retail or distribution or both?

Get list of pro's and con's of starting a cafe:

e.g. Con's:

- * dont understand market yet
- * dont really know what they are good at yet
- * masses of growth in existing core business and geographic area

This takes the class to the point of discussing the risks of diversification. To show the risks and cash requirement of diversification use the Ansoff matrix;



Part of the core business issue is which market segments to tackle. Talk about the pro's and con's of the most important ones.

e.g. the cafe segment;

Pro's:

- * cash on delivery
- * masses of them
- * clientele likely to buy Goldsmiths type of trendy product

Con's:

- * lots of small orders, so costly to service
- * recession sensitive (unlike office canteens)

Emphasise: In start-up phase looking for least risky and most cash positive segments.

3. Finish off part 1: with discussion of challenges facing them at this time.

- * employing staff for first time
- * coordinating/controlling expansion e.g. how to cope with all the order info.
- * Mark and Simon getting time to promote/prospect for growth business, new suppliers, etc.,

TEACHING NOTE PART 2.

Get class to discuss and suggest answers to crises outlined at end of this section.

(i) Lack of cash

* look at working capital position

	debtor days	creditor days
As at 30/4/89	48	24
As at 30/4/90	41	23

* look at security position

* Liquidation position

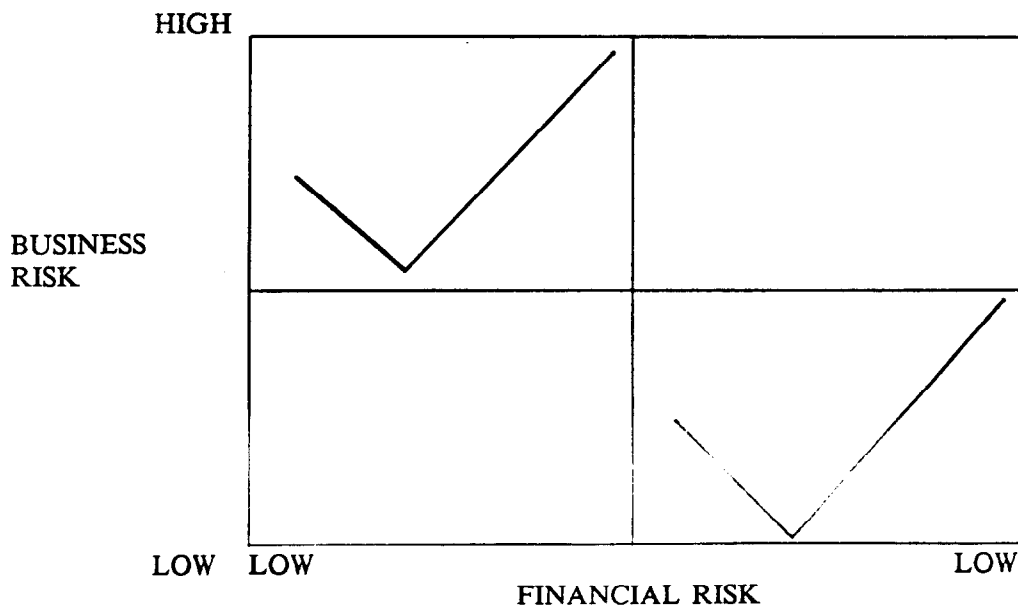
Asset value	73,623
minus overdraft	12,918
creditors	<u>42,183</u>
Remaining assets	18,522

(ii) The business structure problem.

Ask class for pro's and con's of partnership versus Ltd. or PLC.

* Major arguments for Ltd/PLC structure is to bring in new (non bank) funding and to limit liability. Both of these are vital if extend lots of credit to large contract caterers in expansion.

* Discuss appropriate way to finance growing business:



Want to be in one of the two "ticked" boxes.

Discussion points;

High business risk in start-up. Therefore go for low financial risk finance.

Until recently this low risk finance has been self generated cash due to cash on delivery payment, but cant self finance if grow by taking on more large caterer clients who demand substantial credit. Therefore must secure another source of low risk finance i.e. equity. Ltd/PLC structure achieves this.

Note: as yet have not needed to bring in new share capital, but will need if continue to expand at present rate.

(iii) Business coordination problem.

Discuss how to improve coordination of activities. Why does coordination deteriorate as businesses get larger?

- * people no longer in close physical proximity
- * jobs become specialised so people doing different jobs cant communicate
- * loyalties form towards sub-groups rather than the whole company
- * there are physically many, many more transactions and bits of information to handle

Conclusion is that easiest way to improve is by shifting to one warehouse and office site.

(iv) California Cookie Company in London.

What should they do? Ask class and set out pro's and con's of each option.

Biggest point to draw out is that doing nothing is not a feasible option. They must buy out or "compete away" the CCC operation. Why?

- * California Cookie products are still a very large proportion of Goldsmiths sales at this time and their service to customers depends entirely on having those CCC products. It is unlikely they can successfully enter the London market without CCC's products.
- * London is the biggest potential market for Goldsmiths products in the UK. To lose this market severely limits their potential for growth.
- * They need to convince all their suppliers that they are the best at selling the goods. Otherwise all the sole distributor agreements might be in jeopardy.

TEACHING NOTE PART 3.

Discuss future worries;

1. Exposure to large amounts of credit.

Look at Balance sheet as at 30/4/91.

* Huge increase in debtors. Debtor days now 84 (from 48 last year) and creditor days 49 (from 24 last year). Net effect is that must now finance £85,000 of working capital as compared to £37,000 last year.

* Currently this is successfully funded from profits.

2. "Operation Organise"

Implications of this;

* Getting to grips with problems of coordination.

* Business now becoming much more professional with a definite formalised culture. But lot less flexible?

* Mark now driving the business more openly. Will this create tensions between Mark and Simon especially as Mark is also Chairman.

3. Danger of new copy-cat competitors.

Discuss here how Goldsmiths can create barriers to entry for new entrants:

* Create strong brand image for Goldsmiths via promotion and perhaps by getting some products packed under the Goldsmith name. As they get bigger and have sole distributor agreements they have a fairly strong bargaining position vis-a-vis their clients.

* Due to their size and ability to finance credit they can close out small competitors by offering attractive credit terms for customers.

* Due to their sheer size and good margins they are best placed to compete on price.

* Provision of a very large range of products creates customer loyalty to Goldsmiths.

* More sole distributor agreements with suppliers starves new entrants of product range.

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