TO: Lucy Hibbert, Between the Lakes Cheese Company Ltd.

FROM: Brayden Campbell, CheezWhiz Consulting LLC

RE: Between the Lakes' Current Position and Recommendation for Expanding Scope of Operations

DATE: 4/1/2022

EXECUTIVE SUMMARY: Between the Lakes Cheese Company has survived the completion of a new dairy by the skin of its teeth and is now aiming to secure a plan that will help it thrive into the distant future. With a socially aware customer base that demands sustainability and accountability, BTL must be incredibly careful about the way it expands. Therefore, opening a new artisanal cheese-making school is the proposed next move. This strategy will maintain the pristine reputation BTL currently prospers from while opening the door to lucrative franchising opportunities in the future. It will allow for the message and vision of the business to be spread from coast to coast while keeping its financial health in check.

STRATEGIC CHALLENGE: CEO Lucy Hibbert wants to grow Between the Lakes Cheese into a $10-million-revenue company but is struggling to determine how to do so without repeating its previous financial struggles. The dichotomy between the company's established role in local sustainability efforts and its desire to become a multi-million-dollar powerhouse makes this especially complicated to resolve without compromising on one or the other.

STRATEGIC POSITION: The way Between the Lakes has fused together sustainable operations with a profitable business model makes this company a force to be reckoned with competitively. As with most firms operating in the artisanal cheese industry, there is a great focus on the differentiation of the product. Where Between the Lakes differs is that it has also implemented focused differentiation through showing the good it can bring to its own community and closely cooperating with local businesses. While there is not much information on competitors, it is clear that Between the Lakes is not concerned about anyone catching up anytime soon due to the vacuum of capacity and government quota.

EXTERNAL ANALYSIS (See Exhibits 1 and 2): According to the STEEP analysis there is a clear benefit to remaining a more local force in this industry. With the popularity of farmers' markets, trends like the 100-mile-diet/slow food, and the emergence of the sustainable agriculture movement, Between the Lakes should continue to capitalize on its community-oriented approach. These factors combined with the quota on cow's milk would make it particularly challenging to extract value from growth that is focused primarily on volume.

One of the biggest threats from Porter's Five Forces analysis is the bargaining power of buyers. The low switching costs and great transparency within the industry imply that the sustainability-focused consumers that occupy the market could be fickler with their loyalty than assumed. This is only a risk if the right actions are not taken to reinforce the values that made BTL so popular in the first place. Another threat is that of new entrants into this industry. Thankfully, this danger is mostly neutralized by the quota mentioned above and the high level of differentiation in this industry's products.

INTERNAL ANALYSIS (See Exhibit 3): Between the Lakes' most powerful competitive advantage lies with CEO Lucy Hibbert. Her leadership has not only brought BTL to the forefront of the sustainable agriculture movement, but has also greatly contributed to the image the company currently holds through numerous media appearances and generous policy decisions geared toward making the world a better place. Due to the lack of manufacturing or immediately relevant financial competitive advantages, we recommend an approach that takes advantage of the great name this company has made for itself and avoids further asset accumulation for now. One downside to the internal advantages BTL has is that the company may have unintentionally self-imposed a limit on its growth potential by associating its namesake with exclusively socially responsible business practices. It also has a substantial amount of downtime in production that should be considered.

FINANCIAL ANALYSIS (See Exhibit 4): The biggest takeaway after analysis of Between the Lakes' financials is that it is far too highly leveraged. While decreasing over time, the most recent debt/asset ratio of 95% still paints the picture that the company is too great of a risk to invest in relative to competitors (60% industry average). As touched upon in the STEEP analysis, the low interest rates currently available make now an excellent opportunity to restructure some of the company's debts. This should be carried out to ensure that Between the Lakes can continue to have easy access to capital. BTL has an inventory turnover of 1.43x, which is more than 3 times slower than the industry average of 6x. The consequences of having such low inventory turnover are that cash flows will be limited, and excess storage costs will be incurred. Thus, any expansion that increases inventory or leverage should be avoided.

RECOMMENDATION (See Exhibit 5): We advise Between the Lakes Cheese to implement the artisanal cheese-making school. Financially, it makes the most sense because it is the least expensive option to implement aside from the status quo and would avoid exacerbating current issues. While there is the initial outlay of $20,000 for the curriculum, the $100,000 salary cost for North America's leading cheese-making consultant and $5,000 for marketing would be almost entirely offset by the roughly $102,000 in tuition accrued from students each year. Since this strategy does not involve growth through new assets or inventory like the affinage, it would not drastically increase financial leverage or make inventory turnover even slower. The possibility of future franchising would also be major for profitability and could improve the net margin relative to the competition.

Another major benefit of this strategy under the VRIO framework is that it does not force Between the Lakes to compromise on any of its values or give up the leadership techniques of CEO

Hibbert. It is not a major industrial expansion that could result in no longer being known as the forefront of the sustainable agriculture movement. If anything, it would only reinforce that image through the spread of Between the Lakes' ideas and methodology. Even if BTL was turned into a franchise, the Ontario dairy would still be independently recognized as a quality local business trying to improve the overall industry in which it operates. Since the main threat in this industry is the power of buyers, this option makes it much less likely than going public that customers will be lost.

The risk of new competitors entering the industry is the greatest threat from this option, however, the cow-milk cheese quota would drastically limit the ability of any new entrants to copy what Between the Lakes is doing unless franchised. Furthermore, the school will produce top talent that can be easily assimilated into the company. One last caveat to this recommendation (and any other that may be pursued for BTL) is that before the school is fully implemented, BTL's debt needs to be restructured and inventory needs to be effectively managed through lean to prosper. As mentioned in the financial analysis, interest rates are currently low, so it is a fantastic opportunity to restructure loans and obligations to bring down the debt/asset ratio. Managing inventory properly will free up working capital to be used in other areas. Overall, this more conservative strategy will assure that BTL is a valuable investment to any prospective lenders and allow for more aggressive growth strategies in the future.

TACTICAL ACTIONS

- Implement a Google Ads marketing campaign for the cheese-making school.
- Negotiate debt repayment with creditors to improve interest rates/repayment periods, and implement lean manufacturing processes to reduce inventory.
- Officially hire Jack Brown to create a curriculum for the school and prepare a plan for the implementation of the teaching facility.

Exhibit 1: STEEP

STEEP Analysis		
Sociocultural	• Increase in Farmer's Market popularity (7% annual growth) • Rise in food tourism • Increased spending on specialty food (25% since 2004) • Specialty cheese dominating regular cheese market growth by 200 to 300 percent • Increased acceptance of buy local philosophies like 100-mile diet and the slow food movement	These factors make it more viable for a small company to begin selling specialty cheese. This also makes it more enticing to keep a brand image of that of a local company.
Technological	• Aging caves, a series of climate-controllered rooms full of aged wood cheese shelving, allowed for greater control of cheese quality, which could be used to sell for a premium • Traditional cheese factories phased out by advent of pasteurization	There is opportunity here to get ahead of the competition by investing in technology allowing for greater differentiation.
Economic	• High shipping costs from foreign suppliers like Western Europe, leading to lower quantities at higher prices • Artisinal cheese not typically available at grocery stores because of small batch sizes • Economy in recession • Current interest rates low allowing for cheap debt	Risk is involved with expanding internationally, but low interest rates could be used to expand more conservatively.
Ecological	• Movement towards a more sustainable agriculture industry ▪ Food production that is healthy, environmentally friendly, respectful of workers, humane to animals, and fair to farmers	It can be detrimental to profits when choosing sustainable methods, but this can be offset by gained customer loyalty for getting involved in movement.
Political/Legal	• Government enforced quota system only allowed for specific cow-milk cheeses, unless approved by governing board and current producers	This makes it very difficult to expand via greater volume, as the government has put a cap on production to keep down prices.

Exhibit 2: Porter's Five Forces

Five Forces	Local Artisan Cheese Industry	Conclusion
Rivalry	• Growth is high for specialty cheeses • Undercapacity in industry with demand not met and no grocery store sales • Ability to differentiate product since cheese is highly customizable for flavor profile • Historically high loyalty of buyers • No price war action	There does not seem to be much threat of rivalry in this industry. With a plethora of demand left to fill, the ability to differentiate, and high loyalty of customer base, mostly **low** rivalry.
Threat of New Entrants	• Somewhat low economies of scale with not many high-volume buyers and storage • Low capital requirements to join industry • Easy to start up a stand selling cheese at market • Easy access to distribution • Government quota on cow-milk cheese production • High product differentiation	Within this industry, there are very low barriers to entry, except for the government quota on cow-cheese milk. With high differentiation, a new entrant would have to do a lot to stand out from established companies. Overall, there is a **medium** threat of new entrants.
BP of Suppliers	• Local suppliers • Likely many suppliers • Low differentiation of inputs • Medium threat of forward integration by suppliers	As the buy local trend has extended to these companies, it is likely that most competitors are using local sourcing for their product. That along with the fact that there is not a lot you can do to differentiate cow-milk, the supplier power is **low**.
BP of Buyers	• Low buyer volumes (Individual consumers or businesses, no retail sales) • Low switching costs • High transparency from movement to sustainability • Highly dependent on farmers' markets, but many individual micro-producers	While it would be easy for a buyer to switch to the competition, the emphasized loyalty in this industry helps to prevent that from happening. Buyers do have the power to get a say in the actions of the company though with the highly conscientious customer base, and so the threat is **high**.
Substitutes	• Low switching costs but loyalty negates that • Low buyer inclination to substitute due to sociocultural trends • High price-to-taste tradeoff to substitute • Easy ability to substitute	The threat of substitutes is somewhat **low** in this industry. The customers are looking for a quality cheese that is being produced by a company that puts a lot of effort into sustainability. One could argue that it is easily possible to substitute artisan cheese, but brand loyalty and all of the other sociocultural factors that make up this industry's growth neutralizes that.

Exhibit 3: VRIO

VRIO								
Resource/Capability	**Valuable?**	**Rare?**	**Costly to Imitate?**	**Organized to Capture Value?**	**Conclusion**	**Weakness**	**Reasoning**	**Actions to Neutralize**
Hibbert Leadership and Awards	Yes	Yes	Yes	Yes	Sustainable Competitive Advantage	**Heavily Leveraged**	Unable to finance much growth, risk of default	Restructure debt and manage inventory better to reduce leverage
Farmer's market sales	Yes	Yes	No	No	Temporary Competitive Advantage	**Not concerned about competition**	Blind spot in competitive strategy	Start researching the competition to stay ahead
Brand loyalty; word-of-mouth and repeat business	Yes	Yes	Yes	Yes	Sustainable Competitive Advantage	**Ceasing production in late winter months**	Missing out on sales during this time	Utilize facility in other profitable ways
Forefront of Sustainable Agriculture Movement	Yes	Yes	Yes	Yes	Sustainable Competitive Advantage	**Self-imposed limit to company growth**	Will be difficult to become large company due to emphasis on sustainability	Expand in way other than pure cheese-production volume
Five cow-milk cheese quota	Yes	Yes	Yes	No	Limited Benefit			
Low Days Sales Outstanding	Yes	Yes	Yes	No	Limited Benefit			
Restaurant/Winery visits	Yes	Yes	No	No	Temporary Competitive Advantage			
High-quality cheese	Yes	No	No	No	Competitive Parity			

Exhibit 4: Financial Analysis

Between the Lakes Financial Ratios	**2009**	**2008**	**2007**	**2006**	**2005**	**Industry Average**	**Trend**
Liquidity							
Current Ratio	1.48	7.68	3.08	2.69	2.55	N/A	Up then down
Quick Ratio	0.46	3.35	1.10	-0.22	-0.95	N/A	Increasing slightly
Leverage							
Debt/Assets	95.19%	91.22%	81.95%	145.80%	270.33%	60%	Decreasing
Activity							
Inventory Turns	1.43x	1.93x	3.09x	2.13x	2.33x	6x	Decreasing
Days Sales Outstanding	21.89	15.64	38.27	34.96	31.01	50	Decreasing
Profitability							
Net Margin	5.52%	2.50%	13.93%	9.04%	0.40%	6%	Up then down

Exhibit 5: Strategic Options

Strategic Options							
Affinage Service		**Status Quo**		**Go Public**		**Artisinal Cheese Making School**	
Benefits	**Risks**	**Benefits**	**Risks**	**Benefits**	**Risks**	**Benefits**	**Risks**
• Greater ability to differentiate	• High set-up/annual costs	• Do not have to substantially do anything extra	• Not capitalizing on new opportunities	• Ease leverage problems with easy access to capital	• Alienating socially-conscious Customer Base	• Potential Franchising	• Teaching people how to become stronger competitors
• Could sell cheese at premium	• Would further leverage company	• No extra operating or fixed costs	• Does nothing to solve financial issues	• Able to grow quickly	• Losing Lucy Hibbert as driver of decisions	• Access to high-quality employees	• Might dampen "local business" reputation
• Being technologically advantaged	• Worsens inventory turnover issue with cheese aging		• Difficult to attract top talent with stagnation		• Pressure to expand regardless of company values	• Relatively inexpensive to implement (cost offset by tuition)	
• Higher volume of sales	• Hibbert inexperienced with Affinage				• IPO is expensive	• Allows Lucy to focus on restructuring debt	
					• Extra requirements must be met	• Would not further leverage or inventory problems	