****

9B17M075

The Italian Bakery: exploring options for future growth

Trina Ruthes wrote this case under the supervision of Elizabeth M. A. Grasby solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

*This publication may not be transmitted, photocopied, digitized, or otherwise reproduced in any form or by any means without the permission of the copyright holder. Reproduction of this material is not covered under authorization by any reproduction rights organization. To order copies or request permission to reproduce materials, contact Ivey Publishing, Ivey Business School, Western University, London, Ontario, Canada, N6G 0N1; (t) 519.661.3208; (e)* [*cases@ivey.ca*](mailto:cases@ivey.ca)*;* [*www.iveycases.com*](http://www.iveycases.com)*.*

Copyright © 2017, Richard Ivey School of Business Foundation Version: 2017-06-08

In early January 2015, Bill Liambotis, owner of the Italian Bakery (the Bakery), a producer and distributor of bread loaves and bread rolls in London, Ontario, had just left a meeting with his business partner, Nikos Dannos. The two men had been debating the best strategic route for the future of their business. After nearly 15 years, the Bakery had healthy profit levels, but growth had become stagnant. The partners were considering a number of options: should they continue the business as it was, expand the Bakery’s product line to include dessert goods or organic gluten-free bread, sell loaves of bread at a local outdoor market, or sell the business? Although he liked the idea of refuelling growth to promote the future success of the business, Liambotis was hesitant to do so this late in his career. If they were to pursue an expansion, Liambotis would need to initiate the lending process from the bank. He set out to devise a plan.

THE CANADIAN BAKERY PRODUCTS INDUSTRY[[1]](#footnote-1)

The Canadian bakery market, which included fresh and frozen bakery products and desserts, was the second-largest subcategory in the packaged goods market and represented 17.6 per cent of this market. In 2011, it generated revenues of CA$8.6 billion[[2]](#footnote-2) and product volume of 1.2 million tonnes. It had expanded at a compound annual growth rate of 3.3 per cent from 2006 to 2011. Bread made up the largest subcategory within this industry; with total sales of $3.5 billion, it had expanded at a compound annual growth rate of 5 per cent.

Despite this revenue growth, the industry’s overall volume growth was stagnant due to a decline in the growth of some dessert subcategories. This inertia was projected to continue through 2016. Changes in consumer behaviour favoured healthier diets and lifestyles, which were becoming increasingly important to Canadians. This trend had also resulted in an increased demand in recent years for innovative and more natural, non-processed products that were tailored to specific dietary requirements (e.g., gluten-free products). This in turn affected the ingredients (e.g., rice flour, chia flour, quinoa, and ancient grains) used in producing bakery products, created a more diverse competitive landscape, and put pressure on existing companies in the industry to adjust their operations to changing consumer demands.

LONDON, ONTARIO[[3]](#footnote-3)

London, Ontario was the 11th-largest city in Canada and home to 385,000 residents. The city was located in Southwestern Ontario, between Toronto, Ontario, and Detroit, Michigan. London was near major provincial highways, three major U.S. border crossings, and an international airport. Several different industries thrived in London because of its location, transportation routes, and demographics. Its residents represented a broad range of cultural, religious, and socio-economic backgrounds. London had major healthcare facilities that enjoyed an excellent reputation. It was also home to a large retirement community and many national and international students who attended Western University and Fanshawe College. The unemployment rate had decreased slightly in recent years to 7.5 per cent in 2014, but it was still higher than the country’s national average and one of the highest in Canada. The London and surrounding area labour force represented 63 per cent of the city’s population.

In recent years, London had become globally recognized for its booming food and beverage processing industry. Although the industry had existed in London for many years, recent moves by businesses to the city had helped it grow. London’s close access to major metropolitan areas in Canada and the United States, combined with its proximity to Ontario’s agricultural farm belt, made the city an ideal location. Over 6,000 Londoners were employed in the food-processing industry, and the city was home to several large food-processing companies, including Labatt Brewing Company Limited (founded in 1847), Cargill Incorporated, Nestlé, The Original Cakerie, McCormick Canada, and Dr. Oetker, which opened its first North American frozen pizza plant in London in 2014.

THE ITALIAN BAKERY[[4]](#footnote-4)

Company Background

In 2000, Liambotis and his silent business partner, Dannos, purchased the Bakery from an Italian family that was retiring. When they purchased the Bakery, it was a small business in east London that specialized in delivering loaves of bread and bread rolls to residential customers. The partners purchased the business for a low price due to its weak financial performance. They used their personal savings and a small bank loan from a chartered bank for the purchase and assumed the existing building lease.

Liambotis immediately began to transition the Bakery’s client base from home delivery to wholesale. The business experienced impressive initial growth because of Liambotis’s personal network with restaurants, businesses, and variety stores. Three years later, Liambotis purchased a larger building in an industrial area of east London to accommodate the rapidly growing business. This building was renovated to accommodate more advanced equipment, including machines that made 200-dozen bread rolls an hour.

After over a decade of operations in this larger facility, the Bakery was producing, selling, and delivering bread products to 150 restaurants and businesses in London, Toronto, and the surrounding areas, while retaining a small group of loyal residential clients who had built a strong working relationship with Liambotis over the years. In 2012, Liambotis borrowed $72,000 in the form of a long-term loan to buy equipment and expand the Bakery’s storefront display to attract this residential customer base. The Bakery’s 306 square metres contained a small storefront display, an office, a large production facility, and a small warehouse. Sales from this expansion were disappointing, and Liambotis concluded this was because the Bakery was not in an optimal residential location. The Bakery had earned healthy profits in the past several years, but customer growth had been stagnant (see Exhibits 1 to 4).

Bill Liambotis

Liambotis had immigrated to London from Greece 30 years earlier at the age of 20. He first worked in the restaurant and foodservice industries by serving in local restaurants and making doughnuts for a local bakery. He had always enjoyed cooking and baking and was interested in developing his skills in these areas. Based on this passion, Liambotis became a partial owner in two London-based restaurants, both specializing in diner food with a Greek influence. He enjoyed his experience with the restaurants and thrived on being his own boss. After closing these restaurants due to low profitability, Liambotis spent five years as a sales representative for Canada Bread Company Limited (Canada Bread), a large bread distributor. When Liambotis and Dannos purchased the Bakery, Liambotis was confident he could leverage the network of strong working relationships he had built at Canada Bread to make the Bakery successful. At the time of the purchase, Liambotis and his wife had four young children and the Bakery was their sole source of income. Liambotis managed all facility operations and customer accounts, and his wife did the bookkeeping for the business.

Customers

The Bakery’s customers were divided into three groups: restaurants, businesses, and residential customers. Some notable customers included Pizza Hut Inc., Red Lobster Hospitality LLC, and Mr. Sub. Over the years, Liambotis had developed a strong customer network of local restaurants. These customers, who made up 75 per cent of the Bakery’s sales, were loyal and appreciated the Bakery’s quality products and prompt delivery. Liambotis made regular visits to these customers, many of whom he considered to be personal friends. This customer group made consistent, standardized purchases. They were generally less likely to try new products but were most commonly influenced by personal sales calls. Businesses (local grocery stores, international markets, and clubs) were the Bakery’s second-largest customer group, making up 20 per cent of sales. This group valued low prices, on-time delivery, and were more open to trying new and innovative products; in fact, they often put pressure on Liambotis to introduce new products. Although most customers were loyal, they had been known to switch suppliers if deliveries were not made on schedule. This group was most influenced by sales calls. Residential clients accounted for 5 per cent of sales, and many were long-standing customers. They appreciated the high quality, great taste, and freshness of the Bakery’s products. This customer group consisted of mostly European immigrants who lived nearby and had been accustomed to purchasing fresh-baked goods in their home countries. Although the business and residential groups were smaller than the restaurant market, Liambotis believed the Bakery had yet to maximize the full potential of these two markets.

Current Production Operations

The Bakery’s production facility was equipped with industrial-grade ovens, mixers, proofers,[[5]](#footnote-5) and a small storage space used primarily for storing raw ingredients. Up to four suppliers delivered non-perishable ingredients (flour, shortening, sugar, and yeast) once a week. When necessary, Liambotis switched suppliers based on price and product offerings.[[6]](#footnote-6) Very little finished-goods inventory was held because the products were perishable and needed to be fresh. Finished bread products were stored on site for one night only and then delivered the following morning.

The Bakery ran two production shifts from Monday to Saturday and closed on Sundays. The day-shift employees made the bread, and the evening-shift employees sliced and packaged the bread. Thirteen production employees (five for the day shift and six for the evening shift) earned $14 per hour and worked eight hours a day, six days a week. Five delivery drivers began their shifts at 5:00 a.m. to deliver the finished goods. These drivers worked eight hours a day, six days a week, and earned $16 per hour. Liambotis believed it was important to pay his employees above the minimum wage rate[[7]](#footnote-7) to encourage productivity and motivate performance. The Bakery experienced low employee turnover of its delivery drivers and day-shift workers; however, the evening shift experienced high turnover, and it was often difficult to recruit for this shift.

THE COMPETITION

The Canadian bakery industry included several businesses that manufactured many different products. The top ten companies in the industry were responsible for 28 per cent of new product launches. Most of the product launches between 2006 and 2012 had been in two categories: sweet biscuits and cookies; or cakes, pastries, and sweet goods. The introduction of new products was directly related to considerable pressure from wholesale clients, who encouraged the industry to continuously introduce new and expanded product lines.[[8]](#footnote-8)

Liambotis identified the Bakery’s three major competitors, which each competed for market share from a different segment of the industry’s customer base.

Bread Manufacturers—Weston Foods

Weston Foods (Weston), a division of George Weston Limited (GWL), was Canada’s largest food and drug processing and distribution company. GWL was an owner of Loblaw Companies Limited and brands including President’s Choice, Country Harvest, and D’Italiano breads. The company was founded in Toronto, Ontario, in 1882 by George Weston, who purchased a bread route from his employer. GWL earned nearly $44 billion in revenue and $134 million in net earnings in 2014.[[9]](#footnote-9) Weston was the Bakery’s largest competitor due to its size, resources, customer base, and distribution network. The Bakery competed directly with Weston for restaurant and business clients. Weston’s size and supplier network enabled its businesses to offer lower prices and a greater variety of products. As the owner of a smaller company in this market, Liambotis was confident in the Bakery’s ability to compete based on strong personal relationships.

Big-Box Retailers—Costco Wholesale

Many small restaurants purchased supplies, bread products, and desserts from big-box retailers. Costco Wholesale Canada Ltd. (Costco) was the most popular and accessible choice in London. Costco was a membership warehouse club store; residential and business customers purchased yearly memberships that granted them access to shop at Costco for bulk items at a price slightly above the wholesale price. Liambotis knew that some of his restaurant customers visited Costco for last-minute restocking of supplies or to purchase products at lower prices than those offered by the Bakery. Liambotis knew that Costco, though popular, was less convenient than the Bakery’s delivery services, and the price difference increased or decreased depending on the products or sales offered by Costco at any particular time.

Grocery Stores, Cafés, and Restaurants

The Bakery competed directly with grocery stores, cafés, and restaurants for business from its residential customer segment. Grocery stores were customers’ most frequent choice because they offered a quick and convenient way to access bread and bread products while shopping for other food and household items. London was home to a large selection of grocery stores that were easily accessed by residential customers. Many of these stores had made efforts to offer fresher bakery products for their patrons. Liambotis observed that bakery purchases in Canada differed from those in Greece: in Greece, it was common for customers to frequent a bakery a couple of times a week to purchase fresh bread products for the home, whereas Canadians usually purchased baked goods along with their other groceries. The Bakery offered its walk-in residential customers fresh products Mondays through Saturdays. It had no available seating, whereas customers at cafés and restaurants could enjoy fresh bread products, baked goods, and desserts while enjoying a social atmosphere.

alternatives

Status Quo

Liambotis wondered whether this was the right time to undertake a significant change. He was satisfied with the success the Bakery had achieved over the past 15 years, and he believed he had identified the crucial factors for that success. At the age of 50, Liambotis was contemplating retirement in the next five years. Would it be wise to take on more work? With the recent changes in the consumer bakery goods industry, he had reservations about making a strategic change now before being certain about the best route. On the other hand, Liambotis was not happy with the recent stagnation of revenue and income growth. Would this opportunity take his business to the next level and refuel growth? If he maintained the status quo, Liambotis projected sales would increase by 8 per cent. To achieve this, he would spend an additional $250 per month on advertising in the next year. Changes in the commodity goods market and uncertainty with one of his suppliers would increase the Bakery’s cost of goods sold expense by 1 per cent of sales. The dollar amount of management salary would remain the same as last year. All other expenses would be the same percentage of sales or the same dollar value.

Expansion: Dessert Goods Line

Adding a dessert goods line (e.g., doughnuts, pastries, and holiday fruit cakes) to the Bakery’s repertoire was one way to increase sales. Liambotis believed his skill and passion in this area would help to ensure this option’s success. He had ascertained that there was a high demand for dessert products from several small London doughnut shops, grocery stores, and coffee trucks that had recently opened but were too small to do their own in-house baking. The Bakery could attract a new customer market segment by being the sole supplier of their dessert goods. If pursued, this would be the most significant expansion in the Bakery’s history. Was the business ready for this? Would this option be able to sustain increased sales for many years into the future?

This alternative would require a $340,000 investment: $125,000 for a 185-square-metre expansion to the building to accommodate a larger production facility, a storage space, and a second office; $95,000 for doughnut- and pastry-making equipment; $100,000 for other equipment, storage racks, and packaging machinery for the fruitcakes; and $20,000 for a used delivery truck to handle the anticipated increase in sales volume. Liambotis had secured pre-approval for a $275,000 long-term loan from the Commercial Bank of Canada (CB) at an annual interest rate of prime[[10]](#footnote-10) plus 1 per cent. He was willing to contribute an additional $65,000 interest-free shareholder’s loan to help fund the expansion. Liambotis projected that the expansion would increase exposure for the Bakery and that this would result in a 10 per cent increase to the Bakery’s existing bread sales. For the first year, doughnut and pastry sales were projected to be $200,000, and fruitcake sales were projected to be half of that amount. Liambotis believed the increased volume would provide for some efficiencies of scale resulting in cost of goods sold remaining at the same percentage of sales.

The proposed expansion would increase some of the Bakery’s expenses. Liambotis planned to hire two new full-time bakers (one for the day shift and one for the evening shift) to assist the current baking staff with production of the existing bread lines and the new dessert lines. He also planned to hire one new delivery truck driver to work full-time hours. Holiday fruitcake production would be seasonal and would require seven temporary bakers to work full-time hours during the months of August to November each year. Even with the facility’s expansion, the Bakery would not have enough space to store and deliver the holiday fruitcakes. To address this, Liambotis planned to rent a warehouse facility in Toronto for $8,750 a month (for August to November) to store product for delivery to customers in the area. Transportation of products from London to Toronto would cost $350 a trip with an expected 20 trips annually. Liambotis also planned to spend an additional $5,000 a year on advertising to promote the new product lines.

Expansion: Organic Gluten-Free Bread Line

Liambotis was also considering a product expansion that would add a healthier alternative to the Bakery’s current product lines. Recent consumer trends favoured natural, non-processed foods, including organic gluten-free[[11]](#footnote-11) products. Liambotis was excited about the option of adding this new product line because some of the Bakery’s customers had expressed an interest in it. Again, this option would offer an opportunity to broaden the Bakery’s customer base.

Despite this option’s potential benefits, Liambotis had little experience with this product and was uncertain whether he had the ability to meet the high standard he set for all product lines. The Bakery had a reputation for delivering high-quality, great-tasting products, and Liambotis had disliked the organic gluten-free bread products he had tasted in the past. Another concern was finding new suppliers for the ingredients required for gluten-free bread products. One of Liambotis’s key strengths was his ability to develop and maintain a strong business network in his industry. Could he do this even though he had no connections or experience and did not know the major suppliers in this entirely new market? Nevertheless, Liambotis acknowledged the increasing demand for healthier products and decided that perhaps it was the right time to enter this market.

The Bakery already had most of the equipment it needed to produce the organic gluten-free bread line; however, the business would need to spend $120,000 on additional equipment to avoid cross-contamination of the ingredients, storage racks, and product-specific packaging supplies. This option would be financed entirely by a long-term loan[[12]](#footnote-12) from the CB. Additional warehouse space would be needed throughout the year to accommodate the increased production; the rental of storage space would cost $3,250 a month. The new line’s sales were projected at $275,000 because of the product’s premium prices. Existing bread sales were estimated to remain at the same dollar amount as the previous year. If this option were pursued, Liambotis would increase the amount of advertising to match that of the dessert goods line. Gluten-free bread included more expensive ingredients, so the cost of goods sold for the new product line would increase to 20 per cent of sales. An additional full-time baker would be hired to help with production and to ensure the Bakery produced enough of both product lines. No additional delivery truck drivers would be needed.

Farmers’ Market Booth

After observing a segment of consumers purchasing fresh grocery items from independent specialty stores, Liambotis believed the Bakery could increase its sales to residential customers. For this option, he would rent an outdoor farmers’ market booth at the Covent Garden Market located in downtown London. The market operated from May to October, and a booth rental cost $520 per season for 26 Saturdays.[[13]](#footnote-13) Another $500 would be spent on signage and supplies. Liambotis would hire a part-time employee at the minimum wage rate to sell the Bakery’s loaves from 8:00 a.m. to 1:00 p.m. at the market and to set up and close the booth (an additional 60 minutes) each Saturday.

A selection of the Bakery’s premium bread loaves (e.g., fresh-baked rolls, artisan sourdough, and rye bread) would be sold for an average price of $4.50 per loaf (prices ranged from $2.99 to $5.99 per loaf). Liambotis liked the idea of increasing his residential customer base, connecting with customers on a personal level, and gaining more local exposure for the Bakery; however, he wondered if this was a good fit for the business. Would a temporary part-time employee be able to effectively represent the Bakery at the market? Another concern was the Bakery’s ability to secure a booth at the market. Booth entry was competitive and, to be eligible, businesses needed to be local growers, farmers, or producers. Although Liambotis planned to sell loaves made from locally-sourced ingredients, most of his primary suppliers were not from London.

Sell the Business

Liambotis had enjoyed a 30-year career in the foodservice and food manufacturing industries, and he was proud of his success since immigrating to Canada. The Bakery had supported Liambotis, his wife, and their four children. At his current age, and with grown children, Liambotis was contemplating early retirement. His original plan had been to retire at age 55; he had worked overtime for many years, and he liked the idea of taking time now to enjoy life and spend time with his grandchildren.

As a 50 per cent shareholder of the Bakery, Liambotis could sell his shares to his business partner. Dannos was a few years younger than Liambotis and was less likely to want to retire at this stage in his career. Alternatively, the partners could sell the Bakery to an external buyer for a potentially higher price. Was now the right time to exit the business?

CONCLUSION

Liambotis reflected on the past 15 years of operating the Bakery. The business had navigated through changes and expansions and had reached a healthy level of success. Liambotis wondered if it would be worthwhile to undertake product-line expansions or sell products at the outdoor farmers market. Would the status quo be enough to sustain healthy profits for the business in future years? The Bakery had always been a good source of income for raising a family, but now that he had grandchildren, early retirement was an attractive option. It was time to decide on one of the options and move forward.

EXHIBIT 1: The italian bakery—STATEMENT OF EARNINGS

(for years ending December 31)

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2014** | **2013** | **2012** |
| Revenue |  |  |  |
| Total sales | $ 1,074,553 | $ 1,023,384 | $ 984,023 |
| Cost of goods sold | 165,481 | 161,695 | 144,651 |
|  |  |  |  |
| **Gross profit** | 909,072 | 861,689 | 839,372 |
|  |  |  |  |
| Operating expenses |  |  |  |
| Administrative expenses | 23,963 | 29,804 | 28,241 |
| Amortization | 20,325 | 20,325 | 19,349 |
| Management salary | 75,000 | 75,000 | 60,000 |
| Wages | 584,064 | 549,120 | 514,176 |
| Utilities | 80,756 | 80,746 | 75,874 |
| Advertising | 10,763 | 10,837 | 10,276 |
| Insurance | 20,350 | 20,350 | 19,287 |
| Telephone and Internet | 7,837 | 7,445 | 6,854 |
| Fuel | 5,867 | 5,482 | 5,093 |
| Repairs | 6,374 | 5,768 | 6,164 |
| Miscellaneous | 1,736 | 1,787 | 1,884 |
|  |  |  |  |
| **Total operating expenses** | 837,035 | 806,664 | 747,198 |
|  |  |  |  |
| Operating income | 72,037 | 55,025 | 92,174 |
|  |  |  |  |
| Interest expense | 12,364 | 15,043 | 10,167 |
|  |  |  |  |
| Net earnings before taxes | 59,673 | 39,982 | 82,007 |
| Income taxes | 12,531 | 8,396 | 17,221 |
|  |  |  |  |
| **Net income after taxes** | $ 47,142 | $ 31,586 | $ 64,786 |

Source: Company files.

EXHIBIT 2: THE ITALIAN BAKERY—STATEMENT OF RETAINED EARNINGS

(for years ending December 31)

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2014** | **2013** | **2012** |
|  |  |  |  |
| Beginning retained earnings | $ 62,453 | $ 55,867 | $ 26,082 |
| (Add) Net income | 47,142 | 31,586 | 64,785 |
| (Less) Dividends | (35,000) | (25,000) | (35,000) |
| Ending retained earnings | $ 74,595 | $ 62,453 | $ 55,867 |

Source: Company files.

EXHIBIT 3: THE ITALIAN BAKERY—BALANCE SHEETS

(as at December 31)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **ASSETS** |  | **2014** |  | **2013** |  | **2012** |
| Current assets |  |  |  |  |  |  |
| Cash |  | $ 5,096 |  | $ 5,029 |  | $ 4,536 |
| Marketable securities |  | 1,765 |  | 1,321 |  | 1,098 |
| Accounts receivable |  | 94,207 |  | 92,525 |  | 80,879 |
| Inventory |  | 8,614 |  | 7,974 |  | 4,756 |
| Total current assets |  | 109,682 |  | 106,849 |  | 91,269 |
|  |  |  |  |  |  |  |
| Fixed Assets |  |  |  |  |  |  |
| Building, cost |  | 250,000 |  | 250,000 |  | 250,000 |
| Trucks, cost |  | 79,500 |  | 79,500 |  | 79,500 |
| Equipment, cost |  | 148,576 |  | 148,576 |  | 123,450 |
| Furniture and fixtures, cost |  | 27,586 |  | 27,586 |  | 19,450 |
| Total cost |  | 505,662 |  | 505,662 |  | 472,400 |
| Less: Accumulated amortization |  | 366,117 |  | 345,792 |  | 325,467 |
| Total fixed assets, net |  | 139,545 |  | 159,870 |  | 146,933 |
|  |  |  |  |  |  |  |
| **Total Assets** |  | $ 249,227 |  | $ 266,719 |  | $ 238,202 |
|  |  |  |  |  |  |  |
| **LIABILITIES** |  |  |  |  |  |  |
| Current liabilities |  |  |  |  |  |  |
| Bank line of credit (limit $50,000) |  | $ 38,074 |  | $ 41,490 |  | $ 22,955 |
| Accounts payable |  | 27,308 |  | 30,272 |  | 16,880 |
| Current portion of long-term debt |  | 12,000 |  | 12,000 |  | 12,000 |
| Total current liabilities |  | 77,382 |  | 83,762 |  | 51,835 |
|  |  |  |  |  |  |  |
| Long-term liabilities |  |  |  |  |  |  |
| Bank loan |  | 36,000 |  | 48,000 |  | 60,000 |
| Shareholder loan |  | 26,250 |  | 37,504 |  | 35,500 |
| Total long-term liabilities |  | 62,250 |  | 85,504 |  | 95,500 |
| **Total Liabilities** |  | $ 139,632 |  | $ 169,266 |  | $ 147,335 |
|  |  |  |  |  |  |  |
| **EQUITY** |  |  |  |  |  |  |
| Common stock |  | 35,000 |  | 35,000 |  | 35,000 |
| Retained earnings |  | 74,595 |  | 62,453 |  | 55,867 |
| **Total Equity** |  | 109,595 |  | 97,453 |  | 90,867 |
|  |  |  |  |  |  |  |
| **TOTAL LIABILITIES AND EQUITY** |  | $ 249,227 |  | $ 266,719 |  | $ 238,202 |

Source: Company files

EXHIBIT 4: THE ITALIAN BAKERY—FINANCIAL RATIOS

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **2014** |  | **2013** |  | **2012** |
| **PROFITABILITY** |  |  |  |  |  |  |
| Total sales |  | 100.0% |  | 100.0% |  | 100.0% |
| Cost of goods sold |  | 15.4% |  | 15.8% |  | 14.7% |
| Gross profit |  | 84.6% |  | 84.2% |  | 85.3% |
|  |  |  |  |  |  |  |
| **Operating expenses** |  |  |  |  |  |  |
| Administrative expenses |  | 2.2% |  | 2.9% |  | 2.9% |
| Amortization |  | 1.9% |  | 2.0% |  | 2.0% |
| Management salary |  | 7.0% |  | 7.3% |  | 6.1% |
| Wages |  | 54.4% |  | 53.7% |  | 52.3% |
| Utilities |  | 7.5% |  | 7.9% |  | 7.7% |
| Advertising |  | 1.0% |  | 1.1% |  | 1.0% |
| Insurance |  | 1.9% |  | 2.0% |  | 2.0% |
| Telephone and Internet |  | 0.7% |  | 0.7% |  | 0.7% |
| Fuel |  | 0.5% |  | 0.5% |  | 0.5% |
| Repairs |  | 0.6% |  | 0.6% |  | 0.6% |
| Miscellaneous |  | 0.2% |  | 0.2% |  | 0.2% |
| Total operating expenses |  | 77.9% |  | 78.8% |  | 75.9% |
|  |  |  |  |  |  |  |
| Operating income |  | 6.7% |  | 5.4% |  | 9.4% |
| Interest expense |  | 1.2% |  | 1.5% |  | 1.0% |
| Net earnings before taxes |  | 5.6% |  | 3.9% |  | 8.3% |
| Income taxes |  | 1.2% |  | 0.8% |  | 1.8% |
| Net income after taxes |  | 4.4% |  | 3.1% |  | 6.6% |
|  |  |  |  |  |  |  |
| Return on average equity |  | 45.5% |  | 33.5% |  | 71.3% |

EXHIBIT 4 (CONTINUED)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **2014** |  | **2013** |  | **2012** |
| **LIQUIDITY** |  |  |  |  |  |  |
| Current ratio |  | 1.42:1.00 |  | 1.28:1.00 |  | 1.76:1.00 |
| Acid test |  | 1.31:1.00 |  | 1.18:1.00 |  | 1.67:1.00 |
| Working capital |  | 32,300 |  | 23,087 |  | 39,434 |
|  |  |  |  |  |  |  |
| **EFFICIENCY** |  |  |  |  |  |  |
| Age of accounts receivable |  | 32 days |  | 33 days |  | 30 days |
| Age of inventory |  | 19 days |  | 18 days |  | 12 days |
| Age of payables |  | 60 days |  | 67 days |  | 40 days |
|  |  |  |  |  |  |  |
| **STABILITY** |  |  |  |  |  |  |
| Net worth to total assets |  | 44.0% |  | 36.5% |  | 38.1% |
| Interest coverage |  | 5.83 × |  | 3.66 × |  | 9.07 × |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **GROWTH** |  | **2013–2014** |  | **2012–2013** |  |
| Sales |  | 5.0% |  | 4.0% |  |
| Net income |  | 49.2% |  | −51.2% |  |
| Total assets |  | −6.6% |  | 12.0% |  |
| Equity |  | 12.5% |  | 7.2% |  |

Source: Company files.

1. Agriculture and Agri-Food Canada, “Consumer Trends: Bakery Products in Canada, January 2013,” Government of Canada, April 2, 2014, accessed August 6, 2015, www.agr.gc.ca/eng/industry-markets-and-trade/statistics-and-market-information/by-region/canada/consumer-trends-bakery-products-in-canada/?id=1410083148462. [↑](#footnote-ref-1)
2. All currency amounts are in Canadian dollars unless specified otherwise. [↑](#footnote-ref-2)
3. London Economic Development Corporation, *Concierge: Your-Self Serve Guide to London, Canada*, Slide Presentation, accessed May 8, 2016, www.ledc.com/assets/pdf/slide-decks/LEDC\_Concierge\_09-07-2016.pdf; “Food Processing,” London Economic Development Corporation, accessed August 4, 2015, www.ledc.com/food-processing. [↑](#footnote-ref-3)
4. Some of the information in this section was obtained and adapted from Trina Ruthes, *The Italian Bakery: The Sweet Decision*, Business Case (London, ON: Ivey Publishing, 2016). Available from Ivey Publishing, product no. 9B16N013. [↑](#footnote-ref-4)
5. A proofer (or dough retarder) was a refrigerator used to control yeast fermentation. [↑](#footnote-ref-5)
6. The Bakery had switched suppliers in 2013 due to easier access to better ingredients. [↑](#footnote-ref-6)
7. As of June 1, 2014, minimum wage in Ontario was $11.00 per hour. Wage rates included all employee benefits. [↑](#footnote-ref-7)
8. Agriculture and Agri-Food Canada, op. cit. [↑](#footnote-ref-8)
9. George Weston Limited, *2014 Annual Report*, 2015, accessed June 30, 2016, www.weston.ca/en/pdf\_en/gwl\_2014ar\_en.pdf; Weston Foods, accessed June 30, 2016, www.westonfoods.ca. [↑](#footnote-ref-9)
10. The prime interest rate was 3 per cent. [↑](#footnote-ref-10)
11. Gluten-free diets excluded the gluten normally found in grains such as wheat, barley, and rye. This diet was used to treat individuals with celiac disease, which causes difficulty digesting foods that contain gluten. [↑](#footnote-ref-11)
12. The interest rate on this loan would be prime plus 1 per cent. [↑](#footnote-ref-12)
13. Covent Garden Market Corporation, *Vendor’s Handbook: Outdoor Farmer’s Market*, Revised Version, January 2016, accessed June 29, 2016, www.coventmarket.com/wp-content/uploads/2013/03/Vendors-Handbook-20161.pdf. [↑](#footnote-ref-13)