THE BUN LADY

Mark T. Schenkel, Belmont University
1900 Belmont Boulevard
Nashville, TN 37212-3757
615.460.5474
schenkelm@mail.belmont.edu

Jeffrey Cornwall, Belmont University
Christopher Gray, Belmont University
ACADEMIC ABSTRACT

The Tennessee Bun Company case illustrates a complex set of issues associated with opportunity assessment, venture creation and growth within a mature industry. It facilitates robust discussions of the role personal aspiration plays in the recognition, assessment and potential for shaping opportunity. It also provides ample foundations for discussing the roles of competitive analysis, venture expansion strategy and financing in the development of a multi-faceted, customer focused manufacturing business. Students must evaluate the decision to expand from both a domestic and internationally perspective, and how it will influence the maintenance of control over the business, its strategy, and its culture.

EXECUTIVE SUMMARY

Entrepreneurs must evaluate both themselves and the opportunity in order to succeed in a new venture. This evaluation process entails an analysis and assessment of personal goals, skills abilities and market information, followed by decision for deliberate action. The establishment of a formalized strategic plan with tactical execution and the flexibility to adapt to changing environments is vital to the success of a new venture.

The Tennessee Bun Company case presents an overview of an opportunity that was perceived and acted upon by an entrepreneur whose persistence reflects her high drive to succeed. This case makes four important contributions to practice. First, it illustrates the important role of self-assessment plays toward promoting persistence throughout the entrepreneurial process. Second, it demonstrates opportunity recognition and analysis. Third, The Tennessee Bun Company highlights the strategic importance of extending a growing venture’s market through acquisitions and geographic expansion. Finally, it discusses business funding and stakeholder analysis. Collectively, the findings suggest several practical insights into how entrepreneurs may seek to extend their entrepreneurial capabilities, while maintaining substantive control over the direction and performance of venture during periods of rapid growth.

Tennessee Bun Company

Cordia Harrington makes more buns per hour than anyone else on the planet, well maybe not! But, if you eat a bun from any McDonald’s restaurant in the Southeast, Chili’s on the East Coast, or from Pepperidge Farm nationwide, chances are you’ve eaten one of her buns. Her success to date is evident from her affectionate title as ‘The Bun Lady.’ Yet life hasn’t always been so toasty and delicious for this Nashville entrepreneur.

Cordia Harrington’s entrepreneurial journey began a number of years ago when she decided to bootstrap her way through the opening a real estate business while also working full-time at a travel agency. Her business strategy included 1) hustling for business, 2) cleaning the properties so they showed better than other houses in the market and 3) listing only houses that were appropriately priced. Cordia soon began transitioning her efforts to real estate as a full-time business as it began providing a stronger income for her than the travel business. Cordia eventually sold the real estate business to a larger firm. While in the process of subsequently launching another small real estate, she also began looking at opening a
McDonald’s franchise. She was intrigued with potential to earn a living and enjoy a family friendly lifestyle given her observations of a local couple who owned one. She ultimately decided make a petition to McDonald’s to become a franchisee.

Cordia was not only accepted, but also rewarded with the chance to work for free while driving one hour each day for several months to Little Rock for training! Cordia notes they “put her through the wringer” to reduce any potential risks. After training, she was offered the opportunity to purchase the Effingham, Illinois McDonald’s for $1.65 million. Cordia put forth $450,000 as a down payment – $50,000 from the real estate business sale, $150,000 from home equity, and $200,000 from a signature loan – leaving her with a $27,000/mo. mortgage payment.

**New Opportunity and The Bun Committee**

Cordia quickly confronted the challenges of restaurant ownership and she decided to engage a friend in a brainstorming session. They came up with the novel idea to buy the local Greyhound Bus terminal and move it next to her McDonald’s to drive sales. Although initially lower than expected, some minor refinements in marketing efforts targeting bus drivers resulted an average of 88 bus visits a day in winter and 122 in the summer and sales increases within one year.

Some local McDonald’s franchisees were apparently unhappy with the idea of a female franchise owner. As Cordia notes, “I was the only female franchise owner in Central Illinois, and as a joke the men in my co-op advertising group voted me onto the ‘Bun Committee,’ ” which was a regional operator committee overseeing pricing and operations of bakeries serving the region. While not significantly powerful in the McDonald’s scheme, the committee represents a ‘leg’ of the ‘three legged stool’ of McDonald’s (corporate), Owner/Operator, and Supplier.

Cordia was soon elected to chair the committee. She noticed that the bakery business was not only lucrative, but also that McDonald’s had a need for two specific things: an additional bakery, and diversity in suppliers. The idea began to form in Cordia’s mind that she could open a bakery, and she petitioned to become a McDonald’s bun baker as a result. Given her non-existent manufacturing experience, as well as her lack of capital funding, McDonald’s was politely unreceptive, despite her having three restaurant locations with combined sales of over $4 million dollars. Cordia’s gut led her to become adamant about pursuing the idea of becoming a bun baker. Thirty two interviews later, she became a manufacturer for McDonald’s baked goods in 1996 with the standard McDonald’s handshake. No formal contract was written up.

Banks were also generally apprehensive about granting a loan, particularly given the lack of baked goods manufacturing experience and nothing more than a handshake agreement. However, one bank did agree finally to provide the bulk needed funding. An industrial revenue bond generated $10 million. Two outside bakers, McDonald’s partners confronting potential adverse impact on their own business, also agreed to contribute approximately $1 million in exchange for 24.1% share TBC. Cordia invested $4.3 million from the sale of her three McDonald’s franchises, giving her a 51.8% share in TBC and the role of Managing Partner.

In 1997, at the cost of $15 million, construction on the most highly automated bun manufacturing facility in the world at that time was completed. The 50,000 square foot Dickson
(TN) plant was capable of manufacturing 1,000 buns a minute. Tennessee Bun Company (TBC) began operations exclusively serving all McDonald’s locations within a portion of seven states.

The Industry

The bakery industry consists of 2,600 commercial bakeries and is estimated to generate approximately $25 billion in annual revenue. Although bakery exports increased by 17% in 2003 and CAFTA is predicted to offer new markets to U.S. bakeries, the domestic bakery industry is arguably mature overall as indicated by low margins and industry consolidation, and a declining U.S. population growth rate.

Whereas the commercial segment is highly concentrated (i.e., Frito Lay, Inc., General Mills, Inc., and Kraft Foods International accounted for 45% of overall industry revenues in 2004 (Bakery Redbook)), approximately 7,000 retail bakeries generate an estimated additional $2 million in annual revenues. Large companies tend to operate dozens of bakeries, although the ‘typical’ baker operates just one facility. Every commercial bakery is capable of contract baking, but competition among exclusive bakers for the McDonald’s franchisees was divided among five.

Bakery profitability is determined largely by three factors: raw materials pricing, operational efficiency, and adaptability to marketplace innovations. The ability of small companies to compete with larger rivals springs predominantly from a focus on specialty goods or superior distribution capability. Ingredient costs traditionally constitute 15-30% of the wholesale price, and recent pressures have led to rising raw material prices. For example, wheat demand has remained strong in recent years while the average acreage harvested has declined. Hurricane Katrina and poor ’05 sugar beet crop causing raw sugar prices to rise $0.15 per pound by the end of January, 2006, with futures for March deliveries at a 21 year high of $17.35 per pound.

A turning point

Two years into production, profits at TBC were non-existent. McDonald’s same store bun sales were down over 30% nationwide. Given the collective risk of financing both TBC and another bakery focusing on McDonald’s, Cordia’s confronted bank management’s decision to call her loan. With only $20,000 of her initial $4.3 million investment remaining, Cordia would have a hard time making her upcoming payroll. Fortunately, she found a new bank quickly.

Given this experience, Cordia felt that she needed to diversify beyond McDonald’s if TBC was going to survive moving forward. She began to acquire new customers. Several affiliate companies have also been established. Specifically, Nashville Bun Company (NBC) was established in 1999 as a bun-packaging center and storage facility for TBC. Bun Lady Transport (BLT) was also started in 1999 due to the lack of dependable service across a number of trucking companies. The name for the new company came about on a whim. As Cordia notes, “Some guys in Leadership Nashville gave me a nickname: The Bun Lady. So when I started my trucking company it was called ‘BLT – Bun Lady Transport.”

Cold Storage of Nashville (CSN) is a third party public refrigerated warehouse and distribution center providing freezer and storage and on-line inventory management support. Cordia decided
to purchase CSN based on a 10-year contract for storage of O'Charley’s baked goods and a purchase price significantly below appraised market value. Cornerstone Baking Company (CBC) is a new venture designed to capture the O'Charley’s dinner roll business. Collectively, 2007 sales are estimated at $51 million for TBC and affiliated companies and are broken down as follows: TBC $27, NBC $18, BLT $4 and CSN $2 (in millions).

Growth opportunities

TBC has agreed to an offer to purchase a 51% stake in a bakery in a Southern part of the U.S. that once serviced a major franchise chain. The plan is to serve two large additional customers as a minority owned business. Land is also being located for the construction of another bakery in the Northwestern U.S. Cordia and her team plan to partner with another baker in order to provide staff for this facility.

TBC has also recently partnered with a bakery equipment supplier to launch a bakery supplying a large number of franchise outlets in India. The partnership agreement provides TBC with an opportunity to purchase the equipment at cost long term and has the franchisor’s support. The distribution infrastructure in India, by contrast, remains difficult.

TBC has also looked into expanding into China. Cordia got a good chance to witness the incredible opportunities Asia presents firsthand through a State Department delegation. Although she believes the potential opportunities are great, Cordia continues to have concerns with building a facility in China given ongoing concerns over work environment and social issues.

TEACHING NOTE

Synopsis

This case tells the story of ‘The Bun Lady’ Cordia Harrington’s efforts to launch and grow a group of inter-related high volume manufacturing bakeries, storage and transportation businesses. The case begins with the founder, a single divorced mother of two, struggling to create freedom and financial support for her and her children. It then follows her efforts to own/operate a McDonald’s franchise and discusses the ways in which she grew her business to be one of the most successful in the country.

The case is well suited for use throughout the early, mid and later stages of an entrepreneurship course. There are a number of potential side issues to explore at the instructor’s discretion. These include: career paths, balancing passion, creativity and market analysis to achieve a healthy skepticism, business planning, and diversification. Because of the evolving nature of the venture, the case is also ideal for assignments requiring students to research international opportunity assessment and business expansion.
So What?

This case is intended for use in undergraduate or graduate courses in entrepreneurship, new venture creation, new venture management or entrepreneurial finance. It could also be used for community-based seminars designed to support practicing entrepreneurs. The case offers the student a glimpse at the complexity of interrelated issues and challenges likely to be confronted during the assessment of a venture opportunity in a mature, increasingly dynamic, and complex competitive context. In particular, it offers students with the potential to consider how one might go about incorporating his or her personal interests into an alternative career path by focusing on competitive change, technology and uncertainty.

The case also provides students with an opportunity to bolster their understanding of the increasing degree of risk that comes with making strategic decisions for growing a venture, particularly in an environment where risk is compounded by high capitalization requirements and consumers with significant purchasing power. Specifically, it forces students to take a strong look at the potential for developing a sustainable competitive advantage, and ultimately venture growth, from a single customer source that enabled the initial venture launch. Given the near fatal ramifications outlined in the case, students can explore the value of customer diversification and qualification. Students can also discover the differentiation between value added services and those that specifically address a business’s core competency and strategic plan.

Suggested Case Preparation and/or Discussion Questions:

1. Evaluate Cordia’s opportunity assessment process. Do you agree that this was a ‘good’ opportunity for Cordia to start Tennessee Bun Company?

2. Assume Cordia has engaged you as a strategic consultant and is interested in gaining your insights on the future development of the TBC organization. Identify and discuss some of the issues you think Cordia is likely to confront if she chooses to pursue an international expansion strategy at this point in her business’s development.

3. Given ambitious plans for future growth in sales and profits for Cordia’s business, what advice would you give her about management challenges he will face as the company grows, particularly with her geographic and international expansion?

*Please contact the lead author for a full copy of the case and a complete teaching note.