

A Piece of Cake or Half Baked?

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Audra Quinn is a PhD Candidate at Ivey Business School at the University of Western Ontario. Her research focuses primarily on how entrepreneurs build relationships to build ventures, examining selection, relational dynamics, and satisfaction among cofounders within entrepreneurial teams. She draws on her experience as a startup founder to inform her research and teaching and was named the 2022 Most Promising Junior Scholar in Entrepreneurship by the Virtual Seminar Series in Entrepreneurship Research.

Kylie Heales is the 2021 Mary-Jean Mitchell Green, Pierre Elliott Trudeau Foundation Scholar and fifth-year PhD Candidate at the University of Alberta, Canada. She teaches entrepreneurship, social entrepreneurship and introduction to management, enriching classes with the use of teaching cases and her professional experience as a co-founder, c-suite advisor and consultant. Kylie publishes teaching case materials on start-ups and sustainability with Ivey Publishing, and develops entrepreneurial training programs for development initiatives. Her research explores how institutions shape and affect entrepreneurial activities, outcomes, and behaviours.

Lauran Fuller is an entrepreneur and DBA Candidate at the University of Dallas, and Instructor at Southeastern Oklahoma State University. Lauran uses her entrepreneurial experience to guide her teaching through real-life scenarios and cases. She focuses on continually pursuing entrepreneurial ventures and the lessons that can be derived from them. Lauran intends to continue to pursue a teaching career as an instructor that focuses on giving students a realistic preview of entrepreneurship to ensure future success.

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Lauran Fuller¹ glanced around Caked Up! LLC, the colorful and vibrant bakery she had built over the last five years and wondered if the business would ever be financially profitable. As she observed the smiling employees and children licking icing from their fingers, the idea of walking away from her venture and passion pained her. The bakery had become a beloved spot for locals to celebrate with sweet treats and tasty baked goods. Nevertheless, while the business had grown, the expected financial rewards had not materialized. With a mix of personal and financial priorities, Lauran wondered if it was time to admit defeat or continue growing what she had worked so hard to build.

About Lauran

Lauran Fuller was an MBA graduate who, with the financial support of a working spouse, chose to be a stay-at-home mom to two young children. Her spouse's income was modest, leaving a tight monthly household budget for Lauran to stay home. Lauran wanted to contribute financially to the household to alleviate financial stress and afford extra-curricular activities for her children. However, she also did not want to sacrifice the benefits of raising her children for an income that the cost of daycare would only diminish. These considerations led Lauran to start a home-based cake decorating business, turning a favorite hobby into an income.

Getting started

Lauran specialized in making custom specialty cakes and, under the *Homemade Food Freedom Act*², she launched the business from home while maintaining the role of primary caregiver to her children. She worked many hours after the children were asleep to fill orders. Word of her delicious and beautiful work spread, and soon Lauran's nights were consistently filled with cake baking and decorating. She was making an average profit of \$1,000 a month, but her earning potential peaked as she quickly outgrew the small home kitchen. As demand increased, Lauran knew she had to move out of the family home and into commercial facilities.

With the confidence gained through her business education, Lauren took out a loan and leased a small storefront that had a dedicated commercial kitchen and space for her children to play while she worked during the day. Sales increased significantly, which led Lauran to expand her product line, buy new equipment, and ultimately grow into a larger storefront on Main Street in

year three (see Exhibit 1 for financial statements). Over time, she expanded the hours of the bakery and hired part-time employees.

Successful sales but middling returns

After five years in business, Lauran had welcomed a third child and had yet to draw an adequate income from the bakery. She realized she had been making more personal income from the home-based cake decorating business than from operating a storefront 50 hours per week that, after two loans, now included \$27,000 in business debt. There was no looming threat of bankruptcy, and the business continued to cover operational costs, including debt servicing and employee wages; however, she did not significantly contribute to the household income as expected, which is why she started the endeavor in the first place. She loved being a business owner in her community, seeing her bakery and baked goods bring joy to customers, and the flexibility to bring her children to work, but she now had three children to care for, minimal income, and was working harder than ever to live on a "shoestring" budget. Lauran had expected to fail miserably or to succeed gloriously but had landed somewhere in the middle, leaving her with no strong signal about how to proceed.

Looking ahead

As Lauran farewelled the day's final customers and began closing the storefront, she considered what her future held. It was difficult to think about walking away from the bakery with nothing after all the work she had put in. She also identified strongly with her role as its owner and hated to give up on it. Nevertheless, she felt highly dissatisfied working this hard for so little pay and knew something had to change. Her founding goal was to "earn a living," and through the process, Lauran determined this would require at least \$3,000 gross salary per month.

Lauran felt she had three options for the future of the business: dissolve, sell, or continue. Lauran's first option, liquidating the company, would likely not earn enough capital to pay off her remaining \$27,000 debt. Lauran estimated that if she liquidated, she could sell her equipment for \$12,000, but she would have to secure employment to pay the remaining \$15,000 business debt, which negated her ability to stay home with her children. She did have an MBA and five years of experience operating a business under her belt. A reasonable salary of \$50,000-65,000 was attainable but required childcare, an additional cost, and a big change for her children. The second option was to sell the business at a price that would cover the remaining debt and allow Lauran to walk away debt-free from the venture, but likely with no capital gains from the years she had invested in the business. Further, finding a buyer could prove difficult for a young business with minimal profit margins. Finally, Lauran could continue to operate the business until the debt was resolved and her youngest was school age, which she forecasted to be within the next four years. This timeframe would allow her to see if a reasonable monthly salary might emerge but had the potential to result in more time invested without income.

As Lauran shut off the bakery lights and locked the door, her father's words rang in her mind, "if it's not making money, it's just an expensive hobby." How could she balance her motivations of

contributing to her household income, caring for her children, being a business owner, and doing meaningful work? She wondered what other business owners might do if they were in her shoes.

1 Case protagonist and data source: L. Fuller, personal communications, January 13, 2021.

2 Oklahoma State Department of Health. 2022. Food Freedom Act. Accessed May 18, 2022, from <https://oklahoma.gov/health/protective-health/consumer-health-service/foods/home-baking.html>.