SWEET SUCCESS OR HEADACHE?

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It had been a difficult three and a half years, but Maria could see light at the end of the tunnel. Micariño's pastries were now sold at almost 30 retail locations throughout Cali, Colombia and its catering services accounted for one-third of the firm's 2017 revenues. Maria and her family wanted to construct a new, larger kitchen so they could double their baked goods output. A USD $1 million equity investment would easily allow them to achieve that goal. There was just one catch: while the new investor wanted to be a "silent" partner in exchange for her 20% share, she did not like the company's name and had brought in a marketing consultant to develop a new one. Further, the investor wanted to begin franchising the re-named Micariño's baked goods out of Miami. Maria wondered – should she continue to independently own her growing but still small family business in Colombia or should she become part of a U.S.-based franchise?

The Spur

Maria and her then husband had two children and a relatively comfortable life in Cali, Colombia. Their large, ranch-style home had an expansive kitchen and a three-car garage. While Maria did not work outside of the home, she spent much of her time baking various Colombian sweets and meringues, which she often distributed to neighbors and friends. About four years ago, Maria's husband indicated he was filing for a divorce and had plans to remarry. Stunned, Maria wondered what she was going to do: she did not have an external job

The authors developed the case for class discussion rather than to illustrate either effective or ineffective handling of the situation. The case and its accompanying instructor's manual were anonymously peer reviewed and accepted by the ***Journal of Case Research and Inquiry, Vol. 5, 2019***, a publication of the Western Casewriters Association. Contact: Monika L. Hudson, University of San Francisco, 2130 Fulton Street, San Francisco, CA 94117, mhudson@usfca.edu

and her daughter, Ana Maria, was in her final 18 months of college with her son, Eduardo, only two years away from starting the same. Desperate, Maria began to bake and think.

Next Steps

During a family discussion about the divorce, Ana Maria offered to ask if the university would let Maria sell her baked goods on campus. Ana Maria said the school had recently initiated a project to allow non-student vendors on campus and they were looking for applicants. The two women filled out the required forms and were given a booth, space and permission to sell from 2:00 p.m. until 6:00 p.m. daily.

Maria now had a new schedule: she would rise at 4:30 a.m. and begin to bake. On days when she did not have classes, Ana Maria would work with her mother from 7:00 a.m. until about 11:30 a.m., when the two of them would begin to load items into their cars. Depending upon the day, Maria, Ana Maria and Eduardo would staff the university vendor booth on a rotating basis. They began to use the name Micariño to typify that they were selling mostly sweet items.

Fortunately, sales were immediately strong and within two months, Maria was able to offer two students part-time employment on the days when Ana Maria and Eduardo had classes and could not join her at the university booth. Maria also began handing out flyers promoting other Micariño items including birthday cakes and special occasion sweets. Eduardo helped Maria create an elementary website and several promotional brochures featuring their offerings. As a unit, the family developed a basic marketing plan and all three family members asked university students to distribute their flyers and promote Micariño on their social media platforms.
As its first year of operations ended, Micariño had achieved the equivalent of $90,000 USD in gross receipts, just from campus food sales and through four Cali retail bakery outlets.

Consultants from the university's business incubator advised Maria that the company might be able to significantly increase its second-year sales if she added a breakfast catering line and hired sufficient preparation staff. Maria immediately created three relatively simple breakfast menus and worked with the university employment office to identify some students willing to regularly work a 6:00 a.m. to 2:00 p.m. shift out of her home kitchen, with the last three hours devoted to prepping for the next day's baking and breakfast orders.

Accelerated Growth

By the end of their third year, Micariño had more than tripled its first year's sales. Ana Maria had taken a semester's leave of absence during this period to assist her mother with the catering services. Both women were spending 40-60 hours per week producing the various products as well as promoting the firm at networking events at the university's business incubator, catering events for the local Chamber of Commerce and supporting customers' birthdays, anniversaries and parties. Their cakes, meringues and pastries were particularly sought after and Micariño was now known for being able to take any photograph and reproduce it on a pastry, delighting their growing numbers of customers.

Maria continuously set 15% of the firm's annual revenues aside in a working capital reserve. She had also managed to save enough for the third year of Eduardo's university tuition and Micariño now had three full-time employees. With the assistance of the university's incubator consultants, Maria was very proud to have generated integrated 2017 financial statements and, with Eduardo's help, she had gone through the process of projecting the company's profitability for the next three years as detailed in Exhibit 1.

Maria was aware the family's kitchen was no longer adequate for the growing small business. She contacted a local architect about a potential redesign of the family's garage into an expanded kitchen that could provide the required additional storage, refrigeration and preparation space to allow Micariño to continue to scale. The architect estimated renovation costs at $400,000 USD. Maria's bank had offered her a 10-year loan at 12% annualized interest.

An Investment

The university incubator program had been seeking angel investors for Micariño, but until she received the Miami call, Maria was not certain if she should concentrate on saving for Eduardo's tuition or use company cash flow to cover the required kitchen improvements. A $1 million USD equity investment would allow her to relax: she could use a portion of her draw to cover Eduardo's tuition, maintain the company's existing reserves, and handle the garage/kitchen conversion as well as expenses for additional production staff. Why Maria might even be able to enjoy a short Cartagena vacation!

As she reviewed her options, Maria was clear it came down to obtaining a bank loan or accepting the equity investment. After reviewing her financials and company ratios as well as the valuation projections developed by the university's incubator consultants (detailed in Exhibit 1, 2 and 3), Maria felt confident that she could earn the money needed to repay the loan per the bank's terms. In contrast, Maria worried that she knew nothing about the topic of franchising, although the staff at the university's incubator had assured her that she could learn. At this point, all she basically understood was that she would need to give up the family-selected company name and 20% control of the firm. Was this why Maria was so conflicted about accepting the $1 million USD equity investment?

Exhibit 1. Financial Statements

Source: Authors' notes

MICARINO				
PROFIT/LOSS STATEMENT				
	2017	2018	2019	2020
SALES	**298,000.00**	**312,900.00**	**333,645.13**	**357,600.00**
YoY % Growth		*5.00%*	*6.63%*	*7.18%*
COGS	(59,000.00)	(61,950.00)	(66,057.26)	(70,800.00)
GROSS PROFIT	**239,000.00**	**250,950.00**	**267,587.87**	**286,800.00**
Selling Exp.	(19,000.00)	(19,950.00)	(21,272.68)	(22,800.00)
Admin. Payroll	(25,000.00)	(26,250.00)	(27,990.36)	(30,000.00)
TOTAL EXPENSES	**(44,000.00)**	**(46,200.00)**	**(49,263.04)**	**(52,800.00)**
EBITDA	**195,000.00**	**204,750.00**	**218,324.83**	**234,000.00**
Taxes	(27,300.00)	(27,300.00)	(27,300.00)	(27,300.00)
Draw	(65,000.00)	(65,000.00)	(65,000.00)	(65,000.00)
NET PROFIT	**102,700.00**	**112,450.00**	**126,024.83**	**141,700.00**

MICARINO	
CASHFLOW STATEMENT	
December 31st 2017	
BEGINNING CASH FLOW	**120,000.00**
CASH INFLOW	
From 2017 Sales	298,000.00
From Owner	35,000.00
TOTAL CASH INFLOW	**333,000.00**
CASH OUTFLOW	
Computer/Web Design	(7,800.00)
Leasehold Improvements	(210,000.00)
Equipment/Furnishing	(32,000.00)
Advertising	(7,500.00)
Inventory	(66,900.00)
Payroll	(25,000.00)
Other Expenses	(11,500.00)
Taxes	(27,300.00)
Draw	(65,000.00)
TOTAL CASH OUTFLOW	**(453,000.00)**
NET CASH FLOW	**(120,000.00)**
CUMULATIVE CASH	**0.00**

MICARINO	
BALANCE SHEET	
December 3st 2017	
ASSETS	
Cash	0.00
Inventory	7,900.00
Advertising	7,500.00
Computer/Web Design	7,800.00
Gross Leasehold	210,000.00
-Accumulated Depreciation	(70,000.00)
Net Leasehold	140,000.00
Gross Equipment/Furnishing	32,000.00
-Accumulated Depreciation	(16,000.00)
Net Equipment/Furnishing	16,000.00
TOTAL ASSETS	**179,200.00**
LIABILITIES	
Loan Principal	0.00
TOTAL LIABILITIES	**0.00**
EQUITY	
Capital	35,000.00
Current Earnings	195,000.00
Retained Earnings	41,500.00
LESS: Taxes	(27,300.00)
LESS: Draw	(65,000.00)
TOTAL EQUITY	**179,200.00**
LIBILITIES + EQUITY	**179,200.00**

Exhibit 2. Financial Ratios

Source: Bizstats.com

Financial Ratios		
	Micarino Ratios (2017)	Industry Ratios (Bakeries 2012)
Profit Margin (%)	0.34	N/A
Return on Sales (%)	0.65	4.02
Return on Assets (%)	0.57	5.14
Quick Ratio	N/A	0.72
Current Ratio	N/A	1.17
Liability/Equity	N/A	1.33
Inventory Turnover	37.72	19.32

Exhibit 3. Earnings Valuations (in USD)

Source: Authors' notes

EARNINGS VALUATION		
2017		
Multiple	**Net Income**	**Valuation**
30.00	102,700.00	3,081,000.00
20.00	102,700.00	2,054,000.00
10.00	102,700.00	1,027,000.00
2018		
Multiple	**Net Income**	**Valuation**
30.00	112,450.00	3,373,500.00
20.00	112,450.00	2,249,000.00
10.00	112,450.00	1,124,500.00
2019		
Multiple	**Net Income**	**Valuation**
30.00	126,024.83	3,780,745.00
20.00	126,024.83	2,520,496.67
10.00	126,024.83	1,260,248.33
2020		
Multiple	**Net Income**	**Valuation**
30.00	141,700.00	4,251,000.00
20.00	141,700.00	2,834,000.00
10.00	141,700.00	1,417,000.00

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Journal of Case Research and Inquiry

Peer-Reviewed Cases, Notes and Articles

A publication of the Western Casewriters Association

Vol. 5
December 2019

ISSN 2377-7389