

Scaling challenges for Startups– A Case Study of Cups & Cakes

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Executive Summary

With the advent of technologies and digital mediums we have seen mushroom growth of lots of startup be it a purely technology driven model (Careem, Bykea) or food business that leverage on digital eco-system (Foodpanda). However, the major challenge that startup faces is while scaling up. This includes devising processes which do not affect their agility, achieving higher production while maintaining quality and setting up various functions or departments while keeping the cost low.

The project encompasses a challenge faced by a local online bakery - Cups & Cakes and proposed tools and strategies to overcome these challenges. The project also covers the Market analysis, post implementation analysis and upside they have received from the implementation.

Cups and cakes is a home based bakery where sweet treats are made in a hygienic environment. This venture was started one and a half year ago by a domestic kitchen. Cups and Cakes was born out of the love of creating food art – a passion to deliver the most delicious HAND-CRAFTED Cupcakes and sweet treats to carry forward our mission to make the world a happier place altogether. We offer widest range of flavors and we're always baking up something new! Make us a part of your next celebration.

The process to serve our customers was simple, the customer can place their order via digital mediums (Facebook, Instagram) or places an order via call. The freshly baked order is then delivered to their desired location and time through careem, uber or they can pick it by themselves.

Bakery and Confectionery business is growing in both urban and semi-urban areas. The purpose of this project was to study the business model of Cups and Cakes and also challenges every

Startup runs into while scaling, and How to Overcome Them. The project also proposed the strategies that make them successful and scale.

One of the key challenges was that lack of ERP or backend system for timely information and they were dependent on manual record keeping and processes. This manual way of doing this were hindering in their capability to grow.

Furthermore, while expanding the team the challenge they face how to communicate within different departments and processes that can improve their production cycle as well.

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1 Introduction

1.1 Background

With the advent and availability of latest technologies and platform, we have seen mushroom growth of businesses in startup arena. These startups are either technology driven or leverages technology infrastructure to deliver their services. We have also seen these startups capturing a lot of traction in early days but on the other hand we have also seen numerous numbers of promising startups that go off the rail. Most of the time, the reason is that the strategies and tools that helped them in taking off might not work while scaling.

These challenges mainly fall into following broader categories

- Developing processes that won't affect the agility of organization
- Managing higher capacities while sustaining the quality
- From multi-functional roles to formalized teams / departments

The project encompasses the study of a local startup – Cups & Cakes; an online bakery that provides customized & designer cakes, cupcakes & sweet treats. C&C was setup in last quarter of 2018 with the aim to challenge the status quo operating way of traditional bakeries and homebased designers.

Like most of the startups, cups and cakes faces challenges while scaling up and the project comprises of identifying those challenges, proposing and implementing solution and outcomes of those implementations.

1.2 Organization Introduction

Cups and cakes is a home based bakery where sweet treats are made in a domestic kitchen. This venture was started two years ago. Cups and Cakes was born out of the love of creating food art – a passion to deliver the most delicious HAND-CRAFTED Cupcakes and sweet treats to carry forward our mission to make the world a happier place altogether.

The process to serve the customers is very simple yet efficient, the customer can place their order via digital mediums (Facebook, Instagram) or places an order via call. The freshly baked order is then delivered to their desired location and time or the customer can pick it by themselves.

Since the launch of Cups & Cakes they mainly focus on challenging the traditional practices followed by the traditional and online bakeries and focused on customer service and efficiency of processes.

1.2.1 Product Portfolio

The product portfolio includes:

- Cupcakes
- Customized Cakes
- Brownies
- Mousse

Artisanal Creations



1.2.2 Key Differentiation

- Within 24 hours delivery
- 100% return
- Delivery Service in Islamabad & Rawalpindi
- No advance charges
- Premium Packaging

1.2.3 Initial Team Structure

The venture started by two siblings, Misbah & Ahmer. Misbah is mainly responsible for Product development, Baking & day to day backend operations. While, Ahmer primarily focuses on the business development, growth and optimization of organization

Misbah Masood - Chief Baker

The creative brain behind the operation, Misbah Masood is the founder and the Chief Baker of Cups & Cakes. Her mission in life is to bring happiness and joy expressed through a beautifully handcrafted bundle of pure bliss we call a cup cake. She strives to ensure that her cupcakes never get boring through constant innovation in design and taste.

Qazi Ahmer Masood - Chief Helping Officer

If Misbah is the Santa, Ahmer is the little elf who makes it all happen. Ahmer is a co-founder and ensures that Cups & Cakes delivers on its promise to its fans and stakeholders through effective planning, logistics, and operations. He also handles the financial aspect of things so that Cups & Cakes can continue bringing happiness and increasing its scale

1.2.4 Presence

C&C is currently only focusing on digital channels and medium for their sales hence they do not have any physical or retail outlet, however they are available across all major digital platforms

- Google Maps
- Facebook
- Instagram
- Whatsapp for Business

1.2.5 Distinct Achievements

- **YEEP GRANT** – Won a Youth Entrepreneurship grant by a joint venture of CUST & VSO
- **20,000+ Cups Cakes & Treats** in 24 months
- **Quickest Delivery & Turnaround time** among the homebased bakeries
- **118 Deliveries in a single day** on a Mother's Day 2020
- **Part of official Events** – Gerry's Visa, UAE National Day, England Cricket World Cup 2019 Celebrations

2 Market Study & Analysis

A market study was conducted to understand the dynamics of industry in which the business was operating in.

2.1 PESTLE Analysis

Political Factor

- **Taxes** - Due to multiple taxes applied by the new government the cost of production has increased significantly. Also, with strict regulations for tax filing and difficult processes it discourages small businesses especially who cannot afford the consultants for accounting & legal purpose
- **Import Duties** - Due to increasing current account and trade deficit, the government-imposed duties and taxes on imported products. 30-40% of the raw product such as Nutella, Food Colors etc. are imported. Due to which these becomes very costly and it directly impacted on margin of the business
- **Banning of Social Media** – Time to time threatening or banning of social media poses' serious threats to the mushrooms businesses and startups that mainly rely on these platforms as their marketplace.

Economics Factor

- **Reduction in Disposable Income** - Due to high inflation, the portion of disposable income reduced. This also impacted on the spending on festivals & celebrations.
- **Forex Exchange Rate** - As stated in the political factor, 30-40% of raw material are imported, hence the declining currency valuation results in higher prices of raw materials

Social Factor

- **Friend and Family Celebrations** –Celebrations of different events and occasions are actively practiced locally. People in Pakistan celebrate from small events to large ones. They celebrate with friend's family even with their bosses and colleagues to share happiness.
- **Festival Celebrations** - People celebrate eid festivals, New Year eve, Mother's Day etc with their circle. They use sweet treat to share happiness. Increasing trends towards innovative, customized and designer cakes

Technological Factor

- **Increasing use of Social Media & High Penetration of Mobile** -Due to high penetration of Mobile phones, 3G/4G the targeted market is easily available on social media network and the businesses can easily target them using technology and mobile. Targeting customers is easier and more convenient by using technology.
- **Fondant & 3d Printing** - 3d / Edible printing brings new opportunities in the market. You can get edible form of print of any character and picture. Fondant brings colors. You can design and create any type of design with fondant.

Legal factor

- **Tedious legal framework:** Tedious and cumbersome legal processes to initiate and setup business. This includes approval from local food authority, employee hiring related matters. This all raises the bar of doing the business, especially for small businesses.

2.2 Porter 5 Forces

Bargaining power of Supplier - The bargaining power of suppliers are somewhat weak because of multiple suppliers and substitute products, but for few products there are only few or no substitute available and in that scenario the bargaining power of suppliers are high. Product such as Nutella, there are no substitute of that quality are available hence they can charge whatever the premium they want.

Bargaining Power of Customers - There are many, but small customers are available. Although their bargaining power is comparatively medium because of multiple options are available. On the contrary the bargaining power of corporate customer are high because of their scale of order

Threat of New Entrant – Because of lower fixed or setup cost, the entry barriers are very low. However, to sustain and run a business, requires dedicated and operational finances hence most of bakeries shut down within the year of their launch. Also, because of low barrier, its highly saturated and finding a niche at times become very difficult.

Rivalry between Competitions- Since there are many but small to medium size bakeries there is high competition between them.

Threat of Substitute - Multiple product as a substitute are available (Sweets aka Mithai, Donuts, established bakeries products)

2.3 Competitive Analysis

32 Baker Streets

- Specialized in all types of cakes.
- Specialty in fondant cakes.
- Established Customer Base

401 Bakers

- Pioneer of Fondant & Customized cakes in Twin City
- Specialized in designer fondant cakes
- Very large established customer base
- Brand Value & Equity
- However due to large number of orders, their lead time is very high

Color Plate by Ayesha

- Wide variety of desserts. Specialized in all types of cakes, cupcakes, French macrons and cookies
- Creative in art of baking.
- Beautiful photography setup
- Creative products for every event

Commercial Bakeries

- Mostly commercial bakeries have advantage because of scale and high footfall
- Off-the-shelf, standard products and cakes
- Most of these are targeted towards low tiered customized cakes

2.4 SWOT

Strengths

- Wide range of flavors and aesthetic design cupcakes and cakes
- Agile production process, enable them to churn a cake in very minimal time
- Very low fixed & operating cost
- Almost Zero wastage cost as compared to traditional bakeries
- Low operating costs put in the work and meet the demands of customers.
- Low end customized cakes (1 Pound)

Weaknesses

- Limited human resource
- Limited budgets
- Lack of new product development because of ongoing orders and demand. Creativity and ideas for products, requires further trainings.
- Rising cost of electricity and power outages

Opportunities

- B2B Market, Corporate Events and Festivals
- Retail outlet & presence
- Website for off the shelves order
- Enhancing capacity to cater more orders

Threats

- Taxation, import duties and rising cost of doing business
- Large established bakeries with large budget

- Health Consciousness and keto based cakes and desserts
- Government regulations for home-based businesses

3 Limitations & Challenges

While scaling, Cups and Cakes were facing following challenges and these problems were hindering them not only to scale up but also impacting their service quality, effective management of orders and customer relationships

3.1 Lack of Visibility

Customer can place their orders via WhatsApp Business, Facebook, Instagram and over the call. Since all these interfaces are independent and not integrated, Cups & Cakes lacks the visibility of their orders.

The team divided the mediums among themselves and at times it gets very difficult to have a consolidated visibility of all orders.

This lack of visibility caused following problems which hindered them in their growth

- **Capacity management:** Since they have daily capacity of 8-12 orders, it gets very difficult to estimate them the orders already booked for a given day and at times they end up booking orders more than their capacity
- **Productivity lost:** Since entire record keeping was manual, the team has to go through all chats multiple times while preparing the orders. This does not only impact the productivity of the team but also become a tedious process to operate.
- **Production Scheduling:** Because of existing process at times they end up missing the orders since there was no proper tracking.

3.2 Team Expansion

Given the Covid-19 situation and limited budget availability, Cups and Cakes were facing in expanding the team. Since they do not have any proper office setup and also restriction associated to covid-19 halt their team expansion.

Also, there were multiple areas where they needed the resources the re

- **Customer Representative:** Mainly responsible for dealing with customers over different mediums and capturing their requirements and orders
- **Baking Assistant:** Responsible for helping in baking and backend processing of orders
- **Delivery Rider:** For delivery of orders in twin city. Currently they were managing by themselves or via Careem / Uber.

3.3 Power Outage & Rising Costs

70% of the business is dependent / run on electricity, which includes Oven, Beaters and chillers. With unplanned power outages poses' serious threat to business operations and at time these long hours outages caused the delay in delivery too.

Furthermore, with every passing months the cost per unit and total cost of electricity were on rise and directly impacting the profitability of business.

3.4 Retail Presence & Outlet

Since they do not have any retail presence or outlet, they were only relying on digital mediums. This leaves the opportunity of all customers who likes to buy instantly or walk-in customers. Also, customer usually prefers to taste a small dessert before ordering a cake.

Furthermore, physical presence gives confidence to the customers about authenticity of business.

3.5 Business Reporting & Customer Records

Since the entire backend process were manual, there were no digital record keeping. This end up them having no visibility of revenue, costs and margins.

Furthermore, they don't have visibility on customer profiles and past orders. Because of this, they have to ask basic information from the customer every time and can't run customer loyalty or reward programs.

4 Proposed Implementations

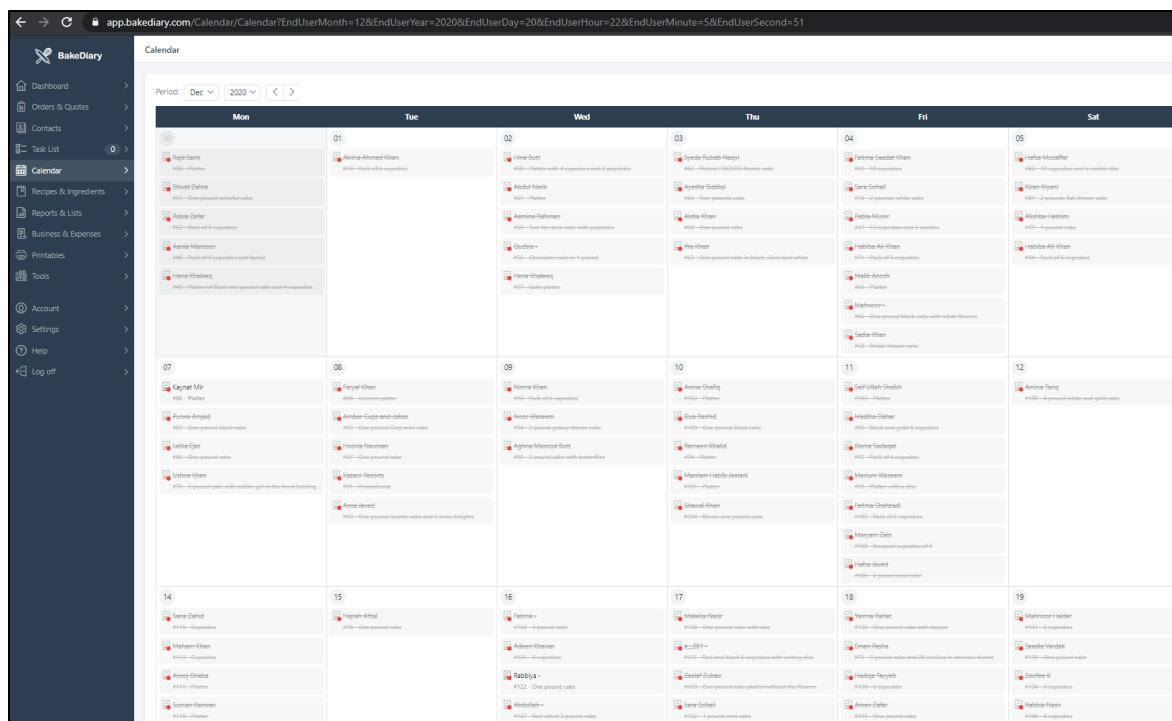
4.1 Implementation of ERP System

Since most of the problems were associated to manual record keeping and lack of visibility. It was recommended to setup a centralized ERP system, so that everyone can have complete visibility and tracking of all orders.

After thorough research, we came up with an online ERP tool especially designed for bakeries – Bake Diary.

Bake diary is available on monthly subscription of around 10\$. The key features of bake diary are:

- Complete Order Management and Visibility on Calendar
- Detailed Reporting Dashboard
- Customer Profile and Record
- Backend Kitchen – Job Sheet
- Auto Customer Invoice



With the implementation of Bake diary, they achieve the target of complete visibility, reporting and a centralized system for all information.

This also helped them to onboard new team members since they have an integrated system through which everyone can communicate.

Reports
Use these reports to help give you better insight into how your business is performing.

- Income Statement**
Use this report to view your income statement report for a specific period
- Detailed Order Item Breakdown**
Use this report to view the cost breakdown of each item in your orders
- Breakdown by Order Type**
Use this report to view a breakdown of your orders by order type
- Breakdown by Event Type**
Use this report to view a breakdown of your orders by event type
- Payments by Period**
Use this report to view all payments made for a specified period
- Summary Expense Report**
Use this report for a high level view of your expenses for a specified period
- Detailed Expense Report**
Use this report for a more detailed view of your expenses for a specified period
- Custom Expense Report**
Use this report for a detailed view of all expenses for a specific period
- Mileage Report**
Use this report to view a breakdown of your mileage for a specified period

Period: Tue, 01 Dec 2020 - Thu, 31 Dec 2020 [View Report](#)

Period: 1 Dec 2020 - 31 Dec 2020

Orders 90 <small>(89 Items)</small>	Received Rs 184,800.00	Outstanding Rs 23,950.00
Total Value Rs 210,700.00 <small>(Incl. Discounts)</small>	Profit Rs 0.00 <small>(0 / 89 Items complete)</small>	

① Your profit is calculated based on the number of order items that you entered a cost price for. This value will only be accurate if you entered a cost price for all order items.

Breakdown by Order Type

Cookies (1)	Rs 5,000.00
Cakes (57)	Rs 152,500.00
Cake Pops (3)	Rs 6,750.00
Cupcakes (27)	Rs 36,450.00
Donuts (0)	Rs 0.00
Flowers (0)	Rs 0.00
Macarons (0)	Rs 0.00
Meringues (0)	Rs 0.00
Mini Cakes (0)	Rs 0.00
Oreo Pops (0)	Rs 0.00
Rice Treats (0)	Rs 0.00
Toppers (0)	Rs 0.00
Wafers (0)	Rs 0.00
Other (1)	Rs 500.00

[Save as PDF](#)

Contact Details

Type: Customer
 Full Name: Zeenat (Bwp)
 Email:
 Number:
 Source:
 Address:
 Mailing List: No

Personal Information

ⓘ
No information available

Important Dates


[Add Date](#)

ⓘ
No important dates added

Order History

[New Order](#)

<div style="display: flex; align-items: flex-start;"> <div style="margin-right: 10px;"> <input checked="" type="checkbox"/> #30 - Mon, 23 Nov 2020 Birthday 2 pounds chocolate fudge cake </div> <div style="text-align: right;"> Rs 3200.00 paid </div> </div>
<div style="display: flex; align-items: flex-start;"> <div style="margin-right: 10px;"> <input checked="" type="checkbox"/> #2 - Fri, 20 Nov 2020 Birthday Birthday Cake for 28 Years old </div> <div style="text-align: right;"> Rs 2000.00 paid </div> </div>



4.2 Alternate Electric Supply – Solar Power

To overcome the challenge of power outage and rising cost of electricity, it was proposed to go for a solar power. With solar power they can not only have an alternate source of supply but also can control the cost of electricity.

The cost of 10 KW solar power is around 1.1 Million PKR whereas solar power of 20 KW capacity with 15KW solar panels is for ~ 1.5 Million PKR.

Furthermore, since it includes high setup cost around 1.5 Mn PKR, it was suggested to go for a 5 year financing which resulted in Zero upfront cost and monthly avg installment of PKR 31,000. This is same as

they are currently paying as electricity rent but after installation of solar power, it is estimated that they will have zero or negative electricity bill.

Hence resulting in not only alternate power supply but also curbing the rising cost.

Complete details of financial proposal and financing plan is attached in Annex - Solar Power.

4.3 Setting-up KIOSK at Key locations

It was suggested to have representation by targeting the locations where people pay a visit more often such as fuel stations, medical stores and large retail outlets.

4.4 Hiring of Cross Functional Resource

It was suggested to hire a cross functional resource for customer interfacing, administrative tasks and order management. The position that was introduced were titles as "Assistant of Everything (AoET).

Also, to assist and increase the capacity it was proposed to hire an Assistant Baker.

CUPS & CAKES
IS LOOKING FOR A

Assistant of Everything (AoET)

KEY WORK AREA:

1. CUSTOMER QUERY HANDLING & MANAGEMENT
2. SOCIAL MEDIA MANAGEMENT
3. BUSINESS REPORTING
4. DEVELOP & MAINTAIN CATALOGUE
5. MANAGE ORDERS

WHAT ARE WE LOOKING FOR?

1. IN DEPTH UNDERSTANDING OF SOCIAL MEDIA PLATFORMS
2. SOCIAL MEDIA CONTENT DEVELOPMENT AND MANAGEMENT
3. PROFICIENCY IN CUSTOMER COMMUNICATION
4. UNDERSTANDING OF BUSINESS REQUIREMENTS

SALARY AND BENEFITS

1. SALARY: UP TO 30K + COMMISSION
3. MOBILE HANDSET & OFFICIAL MOBILE CONNECTION

Apply at:
ahmer.045@gmail.com

**ASSISTANT BAKER
REQUIRED**

At Cups & Cakes

Roles & Responsibilities

1. Provide baker's assistant to head baker
2. Managing ingredients inventory
3. Develop & innovate decorative designs for cakes, cupcakes and pastry
4. Maintain a clean and tidy baked goods counter
5. Design and decorate cakes, cupcakes & pastry in fondant

Salary: 20-35K + Incentives

Apply at: ahmer.045@gmail.com
OR Whatsapp at +92 302 8245439

Also, an organogram was proposed for expansion of team

Organization Chart



5 Annexes

5.1 Solar Panel



PANTERA ENERGY
www.panteraenergy.pk

Executive Summary

- > Total PV Capacity proposed: 10.37kW
- > Require total unshaded area: 700 ft².
- > CanadianSolar Polycrystalline HiKu 415W Module Proposed.
- > GoodWe GW15K-DT, 15 kW string Inverter proposed.
- > Maintenance free, IP65 rating for Inverter.
- > Pantera IntelliHUB System for remote monitoring.
- > Standard Structure with Stainless Steel Nut Bolts.
- > XLPE/EVA/EVA/Tin coated copper wire for PV strings.
- > Special Emphasis on reducing the ohmic losses.
- > Annual average energy yield will be 15,147.5kWh.
- > Annual savings: PKR 272655/- @ PKR 18/kWh.
- > Payback period of the system is 4.21 years.
- > Installation time: 3-5 Weeks after equipment import.

AT: contact@panteraenergy.pk
TEL: 92 42 36617062-63-64
FIND: 13 Bridge Colony Lahore Cantt

/PanteraEnergy

Financial Proposal: 10.37KW On-Grid System

Sr. #	Description	Quantity	Unit.
1	Solar Panels Canadian Solar, Poly Crystalline Hiku, 415W	25	No.
2	Inverter GoodWe GW15K-DT 15 kW Grid Tied Inverter	1	No.
3	Distribution Box AC and DC Breakers	1	No.
4	Frames Standard Structure with Stainless Steel Nut Bolts.	1	No.
5	DC Wire 4mm ² XLPE, Double EVA, Tin coated wire to interconnect the inverters and strings	1	No.
6	AC Wire AC wire for Inverter and Bus bar connections	1	No.
7	Earthing Grounding Bore, Lightening Arrestor, Grounding	1	No.
8	Transportation Delivery of equipment from warehouse to site	1	No.
9	Installation Labor, Civil Works, and Etc.	1	No.
10	Net Metering Net Meter Installation & All Dealings with respective DISCO	1	No.
Total Price (PKR)			1,150,000/-

Warranty

- Solar Module: Canadian Solar * 10/25 Year
 - Inverter: GoodWe ** 5 Years
- * 10 Years 90% Output, and 25 Years 80% Output Linear warranty
 ** 5 Years warranty according to the warranty sheet of GOODWE
- Payment Terms: 50% Advance, 50% after installation and Commissioning
 - Validity: This quote is valid till September 30, 2020.

Component Pictures



4Core 450/750 VAC



4mm² XLPE/EVA/EVA Tin Coated
Single Core 1000 VDC Wire



Distribution Box



Grade 316
SS Nut Bolt



A9N61659
16A 2 Pole DC
Breakers



4 Pole AC Breaker



A9L40421
Surge Protection Device



IP68MC4 Connectors

5.2 Hiring

WELCOME

Hi Ayesha,

I am very excited about the prospect of joining Cups & Cakes ("The Company"). This is your offer letter. In the following pages you will find details regarding your salary, benefits as well as additional things to know before starting. If you have questions at all, please feel free to call me at 0302-8245439. I look forward to your response and (hopefully) working together.

Chief Helping Officer
10th Nov, 2020



01. OFFER

Summary Offer

Position	Assistant of Everything (AoET)
Monthly Salary	PKR [REDACTED]
Commission	Eligible
Probation	01 Month
Other Perks	Official Mobile Connection Promo Codes & Discount(s) for your FnF
Days Off	21 Days off annually



02. COMMISSION STRUCTURE

Commission Structure

COMMISSION STRUCTURE		
No	Monthly Sales Generated	Commission
1	<250,000	Not Eligible
2	250,001 to 400,000	3% of the sales above 250,000
3	400,001 to 600,000	4% of the sales above 400,001
4	600,001 to 1,000,000	5% of the sales above 600,000
5	1,000,000+	4% of entire sales above 250,000

*Commission is applicable after completion of probation period
* Commission is subject to change on a prior notice of 1 month

Sample Calculated Commission

• On monthly sale of PKR 600,000:	PKR 12,500
• On monthly sale of PKR 800,000:	PKR 22,500
• On monthly sale of PKR 1,100,000:	PKR 34,000

6 References

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