

3 FELLERS BAKERY

On a July morning in 2009, Susan Feller sat in the eating area of her retail bakery, 3 Fellers Bakery (3 Fellers), in Goochland, Virginia, with her son Mike, a recent MBA graduate of the Darden School of Business, and marveled about how, in just two-and-a-half years, she had been able to build a successful business by baking and selling gluten-free cakes and desserts. The gluten-free products that 3 Fellers made were now sold in 26 grocery stores, including 10 Whole Foods stores, on the Internet, and in her retail store.

In 2005, when Feller was a happily retired high-school guidance counselor, homemaker, and mother of three adult sons, she was diagnosed with celiac disease. Celiac disease is a disease of the small intestines that forced Feller to avoid eating or being exposed to a list of foods made with wheat, rye, most oats (unless grown in a gluten-free environment), or barley. But it was really the inclusion of flours, breads, pastries, and desserts on the list that got Feller moving toward starting her own business.

Feller loved to bake and make beautiful cakes for birthdays, weddings, and other special occasions. Now she found to her dismay that most store-bought gluten-free desserts did not even come close to tasting as good as what she baked at home. So, she spent more than a year learning how to make her own gluten-free pastry creations, which she knew tasted as good as anything made by the finest pastry chefs. Her secret ingredient was her own flour mix, the product of 12 months of trial-and-error experimentation. She tested her desserts first on members of her family and then on members of her gluten-free support group, the West End Gluten Intolerance Group. She discovered everyone loved her desserts, and several support-group members encouraged her to sell them.

With no previous business experience or training, Feller decided to make the leap and started a business in her home in the spring of 2007. She baked in her kitchen until December 2008, when she bought and transformed a 2,400-square-foot house into a commercial bakery and retail store. By July 2009, the woman who had never even thought about becoming an entrepreneur now managed seven part-time employees. Feller handled new-product development, sales, and accounting. She also oversaw production, managed inventory, and ordered supplies. Her modified kitchen had two traditional stoves, two refrigerators, and four stand-up freezers, along with two professional bakery mixers and several small counter mixers.

Like most entrepreneurs of successful start-up businesses, Feller kept accounting records by hand and paid bills the week she received them even though her grocery clients paid her between 30 days and 45 days after delivery. She self-financed her business; she did not advertise; and she did not buy anything she could not pay for with cash. She had no computerized inventory or accounting system, no employee manuals, and no automated processes. She did have a Web site and many loyal happy customers.

When Feller started selling her products in the late spring of 2007, she set her prices after researching competitive prices, but she did not know her per-unit costs. She began selling in three Richmond gourmet and natural-food grocery stores and acquired new customers by repeatedly calling on them herself and giving them samples to try. In addition, in June 2007, she launched the Web site from which she sold her products and participated as an exhibitor at the National Gluten Intolerance Conference held in Richmond, Virginia.

In July of 2007, she began discussions with the Whole Foods store in Charlottesville, Virginia. By November, she was selling her gluten-free cookie dough in five Ukrop's grocery stores in the Richmond area. Her persistence with Whole Foods paid off when she was approved as a vendor for the Mid-Atlantic region and began selling in the Charlottesville store in June 2008. The Whole Foods Mid-Atlantic region comprised 35 stores located from New Jersey to North Carolina. By July 2009, Feller's gluten-free products were in nine of those Whole Foods stores, in Virginia and the District of Columbia, Ellwood Thompson's Natural Market in Richmond, and in 16 other grocery stores, including Ukrop's.

Along with her success starting her small business had come more opportunities than she ever had imagined, and as a typical entrepreneur she struggled with deciding which opportunity to undertake first.

Market

At this time, between 5% and 7% of the U.S. population suffered from gluten intolerance and struggled with having to eat gluten-free food. The producers of gluten-free baked breads and desserts faced the issue of having to produce these products in

completely gluten-free environments. Thus, for gluten-free production, only gluten-free machines, equipment, utensils, and bowls were used to make gluten-free products. This led to the creation of many small gluten-free bakeries and several midsized gluten-free dessert companies that produced and sold frozen desserts in different areas of the United States. The market for gluten-free desserts became big enough to convince Betty Crocker to introduce gluten-free cake mixes. Even Budweiser's Redbridge gluten-free beer landed in grocery stores in the fall of 2009.

3 Fellers Products

If refrigerated, fresh 3 Fellers products lasted approximately two weeks. By experimenting, Feller created recipes for gluten-free products that could be frozen and when defrosted tasted as good as freshly baked ones, giving her the flexibility of selling both frozen and fresh products. Frozen gluten-free baked desserts had a shelf life of approximately four months, and 3 Fellers sold frozen chocolate-chip, oatmeal-raisin, and sugar cookie dough and frozen buttermilk slice-and-bake biscuits. Baked cornbread and six-inch chocolate, vanilla, carrot, and coconut cakes were also offered for sale. All of Feller's grocery customers carried her gluten-free frozen dough, and several of them also carried her fresh-baked cakes, pastries, and individually packaged desserts such as cupcakes, muffins, and pies. She planned to add cinnamon-raisin cake, mini-cupcakes, and baking-biscuit dough.

An additional outlet for 3 Fellers' gluten-free products was the retail store in the bakery, where custom orders were filled for a variety of cakes, brownies, scones, tarts, pastries, dessert bars, seven varieties of cupcakes, eight varieties of pies, four types of muffins, wedding cakes, banana bread, cinnamon-raisin buns, cheesecakes, and cakes for birthdays and other special occasions. Standard items such as gluten-free breads and rolls were always available.

Feller's research had shown that some bakeries sold gluten-free products that were not manufactured in a gluten-free environment and therefore risked contamination. All 3 Fellers' products were produced in the 100% gluten-free environment of the 3 Fellers' bakery kitchen in Goochland, where current space and equipment were operating at 70% of capacity, and from which products were delivered to each grocery store. All ingredients in these gluten-free products were natural, and only flavorings, fruits, and chocolate of the highest quality were used. Also, all ingredients were certified by the Gluten Intolerance Group of North America, which had higher standards than the gluten-free standards of the FDA.

Opportunities

In all Whole Foods' stores in the Mid-Atlantic region, 3 Fellers' products were approved for sale but were actually only sold to the 10 Whole Foods' stores located in

the cities of Charlottesville, Richmond, Washington, D.C., and in Northern Virginia; however, there was a demand for 3 Fellers' products from other Whole Foods stores in the District of Columbia and Maryland. In the beginning, most stores sold just the gluten-free frozen products, but then Whole Foods requested the freshly baked cakes and other desserts to sell in its bakeries. At the rate 3 Fellers' sales were going, the demand from Whole Foods could soon exceed its current capacity to provide.

Feller's research had also shown the lack of competitive gluten-free frozen cookie dough or biscuit products on the market anywhere else in the United States. To expand into the national market, 3 Fellers would need to buy the equipment to produce, package, seal, and freeze-dry the dough in volume quantities to sell to such centralized national grocery chains as Kroger, Safeway, and Wal-Mart. In addition, many local bakeries that did not carry gluten-free products had approached Feller about selling her products in their retail outlets. Although this would require more distribution capacity, it would increase the 3 Fellers made-to-order business significantly.

Recently, Feller had been approached by two businessmen she knew by reputation. They had experience in the baking business and wanted to include her in building and operating a gluten-free baking plant. It would be a joint venture as the three of them would be partners in the baking business and use her recipes; her Goochland retail store would be excluded. This offer made Feller think about how she viewed her success:

I love baking and decorating cakes. I have found my passion. My bakery brings together the artist in me—I was an art major in college—and it's the guidance counselor in me—I enjoy helping people. You would understand if you could see the look of a 10-year-old boy upon receiving his first decorated birthday cake that he can eat that is gluten free.

Issues

Still, Feller faced some big questions: How big a business did she want to build? What was her "end game?" Did she want to build something for her children to take over? Should she focus on meeting the needs of Whole Foods first by expanding into all its Mid-Atlantic stores? Should she diversify her customer base? Should she try to be a first mover and go national with her cookie and biscuit dough by selling through big national grocery chains? How would she finance production expansion? Could she manage a bigger business? Her love was creating new recipes and producing beautiful great-tasting desserts but would growth take her away from that? Should she partner with someone? Should she outsource production? If so, how would she protect her trade-secret flour recipe? Should she open more retail locations? Should she wholesale her products to local bakeries throughout Virginia?

In other words, how should Feller grow her business?