

Evolving your Business"

Martin Lightbody

I have been asked to speak about evolving your business. I'm going to give you the history and tell you what we've been up to and hopefully you'll glean something from that. We did have the family business which I said to Dad, I would like to come and join. He said 'no problem' but you are going to have to go out there and train before you come back and so I went and did my food technology at Manchester, and then Salford and crammed a three year course, into a year, which was very innovative of them. I went and said I don't want to do a three year course I just want to do a year's practical, so in one week I would do first, second and third year cake decoration and bread making and *they* did that for me and it was very good.

I then went away and was lucky enough to work in Belgium, Holland, Switzerland, Austria, America and Dad funded all of that, I think that's so important for evolving businesses. There was no way I was coming into the business without being fully trained. I had a super training and I like to think I worked very hard for all the people who were good enough to train me and I pinched the odd idea.

I came back home, I'd worked in American, about fifteen years ago and I had worked in a bakery producing bagels, and I thought I'm going to sort this out coming back to Scotland. I got excited, came home and had all the shops decked out in American flags, big launch on the Saturday. I went around the shops on Saturday and there

was a wee lady walking out of our bread shop, she just turned round to me and said "son, your doughnuts are s***." It wasn't one of my best launches, but to be fair I did try.

I was lucky enough to have a good training and I think that is very important in growing a business. When I joined the business we had fifteen shops, I grew it to twenty. I had been lucky enough to work for Martin Jackson at the Celebration Cake Shop for about four months, and I wanted to open one of them when I came home. I grew that

to six shops and things were going okay. We had just won 'Independent Family Baker of the Year' and I was pretty pleased with that, but a supermarket opened, it was a new Safeway store in Hamilton. I remember looking at -the numbers and I said "Dad look we are pretty proud of our quality and the numbers are going down, the customers are going elsewhere, so I said we had to get out of this". I had done my homework on the celebration cake market and felt that the supply base was less than it should be, so we took a big gamble and Dad backed me. We built a new

factory and I have to say Safeway, and Asda, did back me here. I literally phoned then up and said I'm going to build this new factory, I hope you give me an order some day but I would like you to come and design it so it's just the ticket. And to be fair both of them did that. A lot of people say the supermarkets are big bad people, but they did back me there and they did follow through with an order. That was a hell of a punt because the money had to go down, we had to gamble for staff for a year, to retrain them all but they did follow through and the story has been quite reasonable since then.

In nine years we've managed to get market share of 38%, we are number one in the UK and our sales up to £35million. I thought you might be bored by this stage so I thought I would pass a couple of products around so you would know what I was talking about. That's the product we make at the moment.

We are lucky enough to have a

big licence portfolio now and that's actually 50% of our business so it's got quite a gambling nature to it. We will go over to New York every year and try to pick the correct licences for the future so its not just straight forward baking.

I do think it's important always to have barometers of success and I am constantly at the board level challenging a lot of these. It's important to me that we are up there as number one.

Our employment has gone from 40 to near 800 now on site and its important you make profit because you have got to keep investing.

We sold the business, invested the same again, borrowed a lot of money, but we kept the profit going and we managed to invest £50million over ten years but that's on the back of having a good solid customer base and brand partners. We are quite proud of a lot of the names we have managed to get and I guess it is through quick product to market, good quality, and a will to do well. I'm not saying we do everything right but I would like to think our customers will speak quite highly of us, we do try hard, and if we make a mistake, which we do, we'll go like hell to get out of it.

We're actually in Carrefour now, that was an interesting project. I went over there two years ago and they didn't have birthday cakes. French children had a fruit tart for their birthday, so I managed to get the Disney licence and flip it over there and they can now gorge themselves on Winnie the Pooh and various other things. It's been an interesting new market and it's

been a big challenge to get that going. It's starting to go very well, we've got the whole of France, Spain and Belgium covered now. That's our next market to try and sort out.

So you say "how did we do it?" I would suggest that we have a real passion for our product, a big desire to succeed and again you've got to have a big belief in your vision, because at the end of the day it's taking a punt which is the one at the bottom. The cash has got to go down, and being aware of your own limitations. I'm a big believer in bringing help in, you can't be an expert in everything and too many people try to be, and too many people are frightened to ask questions. I'm lucky enough to be a member of the BCA and the knowledge within that sector of people is fantastic. I couldn't speak highly enough of that. I'm not frightened to ask questions and I think quite a lot of people sometimes are.

Brand extension for us is important. We managed to win the Thorntons licence which I mentioned earlier so we've taken the Thorntons brand on to cake and into the multiples, and it's been a big success for them and us.

Disney we work very closely with, we are always working on new innovation 3D cakes.

Over to Hong Kong and China now, I probably do one trip a year there and that's where I get real innovation. It's not necessarily the food sector although the Canton Food Fair is second to none, if you want to go out and see and have your mind blown away by an exhibition. I have come back with lots of ideas from there. The first reason I went was I saw a lollipop in a garage and it was a hand decorated lollipop and I thought it was terrific decoration and eventually found out where it was made. It was made out in Hong Kong so I phoned them up and asked would they make me cake decorations and he said 'no'. I said "why not, we do quite a bit of volume and you can licence them off". Anyway it was a real interesting thing, he said "I haven't met you", so I said well I'll come out so I flew out to Hong Kong. He wouldn't do business until we had had dinner and had a couple of evenings out and it was really interesting, a top man and fantastic factory. He now has 5000 cake decorators living on site in this factory. In one room 600 people sit at a table. I took M & S out this year and they were impressed, its mind blowing. That all came from hopefully trying quite hard and finding a product, and not giving in when the first 'no' came. It has worked well.

Different packaging, we have got to work very hard at that in our game, always forcing barriers. We have now got a new company that was 'Thought Right' that was an M & S product where we blew a special plastic dome. We are now printing on see through plastic. You've got to force new barriers all the time.

This was also interesting, when I went to sell Cadburys celebration cakes, big presentation, big bars of chocolate, we said we could take them into the supermarkets, they said "no". They did it with someone else actually. But they

did say in the meeting, there was this big crispy cake make in France, can you do that? Obviously you say yes. It was monster volume and I thought I had got myself into

bother there. But I got back to him with five days and I found a machine, actually made by Solec, that was a plaster machine and I believe there is only one other in the country. So we took this gamble and it was for all the McDonalds in the UK and we rattled these out at 300 a minute I think. I took a gamble and did it, best part of half a million pounds and I'm pleased to say we have a number of products going there now.

We have managed now to fill that line and that came from the team back at branch saying "yes, we could do that but look at the other products we could do". It worked very well.

There is a big problem with staff so we had to put an in-house training school in because I wasn't happy with what was coming out of the Colleges. I thought we would bring it inhouse and do it ourselves.

Big fan of exhibitions and trade fairs, but not just our industry, I think it's important to go to a lot of other industries and then cross fertilise. I do a lot of that.

External expertise, I do bring in a lot of help because there are a lot of people a lot better than I am at a lot of things.

Market research - in my game it is so important to be able to have detail behind what you are going to sell.

People - I quite like the saying that every person rises to their own level of incompetence. And

it's true. And if people aren't good enough they have got to go or they've got to realise that's their level. Often what I've learned is to invest front end before you think it's required. I made a mistake certainly in not having a financial director early enough, and then when he was on board I saw what he could do working numbers. I think you must invest early. Non-executive directors, I'm a big fan of them, if they are no good you can punt them. If they don't add value you can get rid of them, and I think it's important to use these

guys

Non-family directors, too many for the family business think they're the ticket, and they're not. So it's important to bring in new talent and give them a piece of the action I believe.

The Happy Birthday module was one of my Hong Kong trips that went horribly wrong; I launched a cake with a module that played Happy Birthday when you touched it. We sold about 240,000 of them and then found that EMI had the performance rights for Happy Birthday and they came after us, that wasn't ideal.

Spice Girls was another horror story. Spice Girls, all excited, got the licence, got about 40,000 plaques printed up with the pop group, Ginger Spice leaves the group. So 40,000 plaques in the store are still there.

Disney Dinosaur we launched as lunch box to house the cake and thought we were really innovative, and they are still in the store.

But I do think it's important that we tried all these things, they don't always work, but you can't

get everything right.

We continue to evolve; we are going again actually, we've just bought another site. We have just bought 140,000 sq ft next door to the factory and we are going into, I've combined confectionery and bakery together. We've spent a lot of money, one line has cost £2.5million but I believe its, hopefully, one of the most innovative lines that's around in Europe. It will pack product up to, we hope, a 1000 a minute with some interesting gadgets on it to take small cake and bars to another level.

We've done a lot of homework for this new factory as well. I went out to America and did a lot of work on the health, dietary and nutritional markets, these are some of the products we are making and hope to make in the future. Quite an interesting number, estimated £2.3BN dollars retail in 2003, within that one sector so its an area we are going to take very seriously and I hope we can move it on.

Future development in this factory - we are going to do things a bit different I hope. I'm going to do the offices and innovation centre with quite a scientific look. As an example I've got an invitation to go to the McClaren F1 factory, their new R & D centre, and I'll take ideas from there.

Some of the questions that we ask ourselves, and I think perhaps everyone should is, are you in a growth market? I wasn't so I changed. Are you in profit? Too many people I don't think are good enough with their numbers if I'm being

honest and I wasn't in the early days until I had a team about me that could give me really accurate information. I lot of people are risk adverse, I'm not but then I've got a good team behind me and we hopefully are not balky but passionate. And the big one is, is your management up to the challenge? I had to make quite a lot of changes as we grow; sometimes people stay in companies too long I believe.

Question - Jim Brown, Cumbernauld

Martin, how do you work out on the price of your products, do your customers come and say they want this product and they accept the price you want to supply it, or do you have to make to a price, or it is both?

Answer - It will tend to be a bit of both, it depends on what market it's in. Within the licence sector we can be very innovative and add a lot of new dimensions to products

therefore we can hopefully persuade them the value is there and perhaps raise the price. Other times we will be set a price, we know the required margin with the supermarket and we'll try to develop to that. So it's a mix and match. A lot of the good stuff I would like to think will come from us being innovative and saying we believe we can command a retail of that because we've done our market surveys and so be it. That's what I prefer to do.

Question - David Wright, Ponders End

You are obviously very ambitious Martin, where do you see yourself

in say, ten years time?

In ten years time, well we'll continue to grow this new factory I believe could be a £100million business quite easily, but it's not about that really, it's not necessarily about size. As long as we are making a fair profit and we are proud of the product, we will continue. That's why I had to change before, I felt that if we had gone down the line a number of other family bakers did, and I'm afraid failed, we wouldn't be there, so it's a bit of belief in the passion for the future, the quality of the product and we will continue to invest.

Question - Patrick Farnsworth, Sessional Chairman

You are very successful family business and one of the issues you did mention was employing family members not quite up to the mark. How do you plan to deal with that going forward?

Answer - I have two daughters and if they go through what I consider the correct training, then they will have their chance. But I do think it's so important that they go through the correct training and go and learn from others. Where I've seen things perhaps go adrift is where people get an easy run in and haven't proved themselves. Its like everything, I believe you've got to prove yourself to earn the position. It's not an easy one.

Martin Lightbody

'Evolving Your Business'

British Society of Baking
12 October 2004

Lightbody, Bakers & Confectioners For Over 100 Years

Evolving Your Business

- Company History
- Barometers of Success
- Company Evolution (How)
- Continuing to Evolve
- Future Development

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Company History

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Company History (1877 – 1994)

- Family retail bakery business est. 1877
- 100+ Years of successful high street retailing
- Expanded through successive generations
- 1987 – Martin Lightbody joins business
- By 1994 - Chain of 20 retail shops & 6 celebration cake outlets



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Company History (1995)

- Strategic decision to sell entire family business
- Invest proceeds of sale in new celebration cake business
- Borrowed additional funds.
- Financial assistance from Scottish Office (RSA)
- Built new bakery on Greenfield site (without an order!)



Lightbody, Bakers & Confectioners For Over 100 Years

Company History (1996 - 2004)

- Business has grown in 9 years to be the leading supplier of birthday and novelty cakes to the UK supermarket sector
- Market share of 38%
- Sales in excess of £35m p.a.

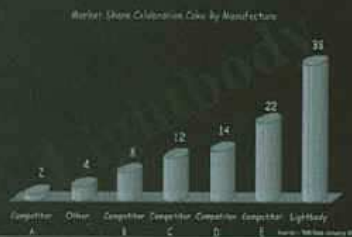


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Barometers of Success

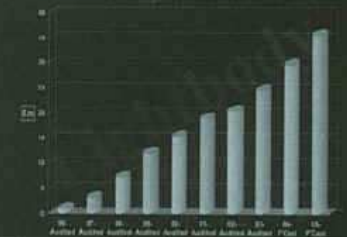
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Barometers of Success – Market Share



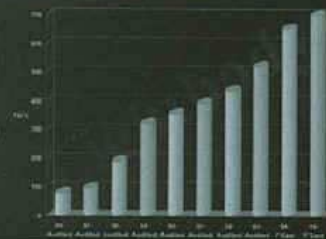
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Barometers of Success – Sales Analysis



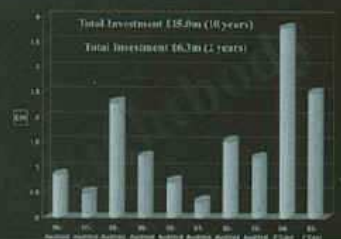
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Barometers of Success – Employment



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Barometers of Success – Investment



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Barometers of Success

Customer Base & Brand Partners



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Company Evolution (How?)

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Company Evolution (How?)

- Passion for the product
- Desire to Succeed
- Belief in my Vision
- Be aware of your own limitations
- Willing to 'Take a Punt'

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Company Evolution (Innovation & Development)

•Brand Extension




•Licensing



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Company Evolution (Innovation & Development)


- 2D & 3D
- Added Value



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Company Evolution (Innovation & Development)

- Packaging Concepts
- Printed Boards



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Company Evolution (Innovation & Development)


Century / McDonald's McMinis



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Company Evolution (Other)

- In-House Training School
- Exhibitions & Trade Fairs
- Hong Kong, China, New York
- External Expertise
- Market Research



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Company Evolution (People)

Department	No of Staff (1996)	No of Staff (2004)
Development	2	22
Technical	1	8
Quality Control	1	12
Training School	0	5
Design	1	4
Non-Executive Directors	0	2
Non-Family Directors	0	3

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Company Evolution (How-Disasters)

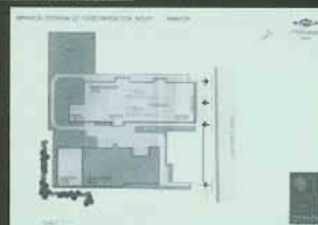
- Happy Birthday Module
- Spice Girls
- Disney - Dinosaur

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Continuing to Evolve

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Continuing to Evolve



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Continuing to Evolve

- Established new business
- Invested a further £5m in equipment and facilities
- Combining confectionary & baking technology
- Health, Dietary & Nutritional Markets



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Continuing to Evolve – Nutritional Bars


- US Market estimated at 2.3 billion US\$ at Retail in 2003
- Key Market Areas:
 - Protein Bars 21%
 - Energy Bars (40:30:30) 20%
 - Meal Replacement Bars 38%
 - Lo-Carb Bars 12%
 - Soya (womens) 9%

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Future Development

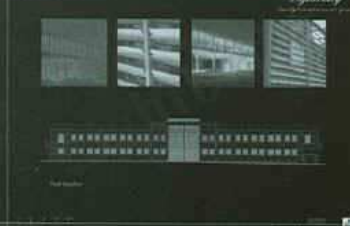
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Helping you grow your business

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Evolving Your Business – Questions?

- Are you in a Growth Market?
- Are you in Profit?
- Are you risk averse?
- Is your Management up to the challenge?

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Netherfield House Stud

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Product Development
 Innovation
 Market Share
Profit
 Opportunities
 Creative Thinking
 Vision & Passion
SENSE OF URGENCY
 Negativity
 Belief

FLEXIBILITY

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