THE COOKIE BUSINESS

This mindshift story illustrates the extraordinary power of joint ventures and of leveraging the access and cash-flow of a given business.

There was a very bright advertising woman in Los Angeles who had made tons of money for her clients from the great marketing work she did for them. One day she decided she wanted to go into business for herself and use her marketing talents to successfully market her own product or service.

In this case, it was a product.

The product she had decided on was cookies. She had a client in Hawaii, a huge mainland bread company, that she took from a little tiny corner bakery in Oahu to a national bread bakery through her brilliant marketing techniques.

She got the bread into supermarkets all over the country. On her many trips to Hawaii to service that client she fell in love with macadamia nuts. And when she got home, she took an old family recipe and baked up a batch of chocolate chip cookies, threw some macadamia nuts in and there was a unique reaction with the macadamia nuts.

It was just one of those wonderful things where the texture or the taste and the smell of the cookie was just outstanding, actually irresistible.

So she decides she's going into the cookie business. She takes a big batch of these cookies back to the folks at the Hawaiian-based (now national) bread company; they taste the cookies and love them.

She says, "Well, look. Here's what I'd like to do. I'd like to go into the cookie business. I'm an unknown cookie person. And getting people to sell MY cookies in their grocery stores is going to be hard. So, I don't want to go it on my own unknown in the market.

I want to bring it out under YOUR brand name. I want to call these "your" Hawaiian Macadamia Nut Chocolate Chip Cookies – using their brand name as the credibility builder.

And I want to put them right next to your bread racks and call them "your brand" Hawaiian. But I don't want you to put up a dime. I'll put up all the money. All I want from your company is a license from you allowing me to use your name and brand -- making it appear to the world like this is your cookie."

Now, remember, she's a marketing talent. She shows the Hawaii bread people all they have to do is sit back and collect their fat royalty money from her. They loved it. Then, armed with that licensing agreement, she went back to California.

But she now had a problem --- she didn't have anyone to bake the cookies. So she went out to the suppliers of all the ingredients that she needed. She showed them her licensing agreement with the Hawaiian bakery company. She had them taste the cookie. Everybody thinks it's great.

So she persuaded all of her suppliers to agree that they'd sell her the ingredients and wait thirty days after she ships the cookies to the store to get paid their money. Now she had her ingredients - without putting up a dime. She did the same thing with everything else she needed. Packaging, shipping, you name it – she deferred payment on everyone.

Now she needed a bakery to bake and pack the cookies. She went to several people who had bakeries. She showed them her agreements with her suppliers, and, of course, her agreement with the Hawaiian bakery company. She had them taste the cookie and then she would ask them. "O.K., now if I bring this product to your bakery and I start putting my orders through you, I want a special concession."

And the concession she requested was that when her products hit 30% of the business volume in that bakery's sales, she wanted to own 10% of the bakery. When she hit 40%, she wanted to own 20%. When she hit 60%, she wanted to own 30% of the bakery. And if they'd agree to do that, she said she'd bring her baking business there. Now why was this "no cash down", buy-in proposition attractive to those particular bakers?

If you're a baker and you don't have a proprietary product, you're at the whim of the marketplace. Your customers can leave you tomorrow and you can be nowhere. It's a very unstable business --- unless you've got a proprietary product.

So here was a proprietary product that she was willing to bring in and keep there. Then if it was successful --- and ONLY if it was successful----she'd get a piece of ownership in the bakery.

But, keep in mind, that even after she got her share of that bakery ownership, the remaining equity of the original bakery owner will produce much more profit than that owner would have earned if he remained the owner of 100% of the bakery, but didn't have the proprietary product going through their business.

So she got the owner of a bakery to agree on this performance-equity "buy-in" deal.

Yes, they would allow her to become part owners of the bakery. She started marketing, shipping, and distributing their great cookies to all the same grocery chains who were selling Hawaiian Bread. The sales took off. They were

an even bigger success than she expected.
She reached her benchmark quotas within the framework of her "buy-in" agreement with the baker.

She ended up owning the maximum percentage of the bakery for absolutely nothing! Zero! Nada. And then she bought out the original owner, leaving her as 100% owner of the bakery---and the cookies.

But, again, she didn't use any of her own capital. Very simply employed the technique of using the access and the cash flow of a given business in which you're a minority partner to buy out the other into your pocket for a dime to accomplish it.

This woman never came up with a cent in this entire process. And at the end of the day, the Hawaiian bakery company was pushing her hard to introduce her cookie into more and more of their locations.
Why?

Because they loved getting this free money in royalty checks from wherever she's selling her licensed cookies. Every time she opened up a new territory, grocery chain or distribution channel, the Hawaiian bakery company got a bigger license fee for the right to use their name.

Soon she wasn't growing fast enough for them. Why? Because she had limited capital and capacity.

So she could only expand one market at a time. She didn't have an unlimited amount of capital to go and open up in many new territories all at the same time. So the Hawaiian bakery people came to her with a bold proposition. They offered to buy the company from her for a huge price. They'd put up all the capital she needed to expand as fast as possible. They gave her a long-term license fee, on top, so she got royalty payments on all their sales." A total turnaround.

She ended up selling her cookie business back to the Hawaiian bakery parent company for a big lump sum of cash. They bought out her business, and then gave her licensing royalties that created lifetime income payments for her grandkids. That was the way that she "leveraged out" that particular purchase for a huge, "double" paydays of cash. They have the ability to make large investments