

San Jose Mercury News

04/08/2007

Sweet success for See's

CALIFORNIA CANDY MAKER REACHES 86, CREDITING A STEADY DEDICATION TO OLD-FASHIONED FAVORITES

By Michele Chandler
Mercury News

Chances are, plenty of Easter baskets being unwrapped today will contain chocolate eggs, chocolate bunnies and other sweets from See's Candies, a tradition in California households for 86 years.

But the South San Francisco chocolatier wants its treats to be known coast to coast, so See's continues its expansion. Distinguished by its 205 candy shops with black and white tile floors, workers in prim white uniforms and glass display cases neatly stocked with 100 varieties of the company's treats, See's expects to open more locations in states outside its California stronghold by year's end.

New stores going up in Nevada, Washington state, Hawaii and Utah will join a legion of permanent kiosks operating in 21 airports - mainly in Western states, although one opened this month in Boston's Logan International. Come Thanksgiving, 110 temporary holiday gift centers selling boxed candies will sprout at shopping malls from Maryland to Minnesota - 10 more than last year.

"The population is moving to different cities now and regions like Sparks, Nev., are exploding with new homes and growth," said company spokesman Richard Van Doren about the way See's selects its new markets.

Business was so brisk at a temporary gift store in Prescott, Ariz., that the company is now negotiating a lease for a permanent location there.

"The majority of the people moving there are from California," importing with them their loyalty for See's products, he said.

Big-time backing from Berkshire Hathaway, the investment management company owned by Omaha, Neb., billionaire and Chairman Warren Buffett, is fueling See's expansion. Berkshire purchased the candy maker from the See's family for \$25 million in 1972.

Berkshire has spent an undisclosed sum at See's manufacturing sites in South San Francisco and Los Angeles in recent years, including on



upgrading and adding new equipment at its factory in Southern California and relocating its packing and distribution facility to larger quarters in Daly City in 2005.

See's hasn't always succeeded in its attempts to flourish outside California, home to about 85 percent of its stores. A poor economic climate in the 1980s led to the closing of See's shops in Colorado. But the candy maker ventured back as the economy picked up, recently opening a store in suburban Denver.

Sticking to its traditional products has helped See's prosper, industry experts say.

"They've got their little place in the market and they haven't really veered from that," said Scott Barnum, a former executive with Cocoa Pete's Chocolate Adventures, a Campbell premium chocolate maker. "They don't try to be something super-sexy. They are great business managers and have been good about keeping a consistent image."

To keep customers coming back and to win over new fans, See's expects to launch several new products this year. Included are sugar-free peanut brittle, in July, and a new variety of chocolate truffle - a melted blend of chocolate and cream, shaped into a ball and coated with candy, nuts, chocolate or other ingredients - coming out in time for the lucrative winter holidays. And even though milk-chocolate products are the company's bestsellers, a new dark-chocolate candy bar is also in the works. See's sold its first dark-chocolate Easter bunny this year.

Developing new treats

Novel sweets are developed in See's test kitchen in Burlingame, where lollipops - 60 million in flavors from butterscotch to cafe au lait - were manufactured last year.

See's director of new product development, Steve Ferrando, devises new products that have included a peanut-brittle bar in 2004, the Awesome Nut & Chew Bar in 2005 and the Awesome Walnut Square Bar in 2006. Ferrando whips up small batches of new items that are fed to a panel of company employees who double as impromptu taste-testers. Usually they suggest small flavor tweaks, after which the product is rolled out nationwide, said Van Doren.

It's rare for items to be pulled from production, but among those yanked after meager sales were peanut-butter lollipops. Other discontinued products still have their fans, who write plaintive letters asking to have their product restored, said Van Doren. Items that will be returned seasonally include cinnamon-flavored lollipops at Christmas and root-beer-flavored pops in summer this year.

When the low-carb frenzy hit full stride a few years ago, See's saw sales falter a bit.



"We noticed a little flatness in our sales" during that period, Van Doren said.

"We just kind of cinch our belt up and don't panic and ride it out," he said. "That's one thing that Warren Buffet has always told us - 'Don't change your course just because you got a speed bump in the highway of life, because we are doing the right thing.'"

While much of See's manufacturing is done by machine, many products must be made by hand. In the run-up to the busy Easter season, some workers at the South San Francisco plant decorated chocolate eggs with delicate, tiny yellow edible rosettes, while others gently hand-dipped marshmallows in caramel for Scotch Kisses.

See's homespun appeal extends to the California-made ingredients used for its treats, from chocolate blended to See's specifications and supplied by Guittard Chocolate of Burlingame, to slabs of butter blended into candy mixtures supplied by Challenge Dairy products of Dublin, which Mary See listed as an ingredient back in 1923.

Candy devotees know it all started with Mary See's home recipes, which her son Charles used when he opened a small candy shop in Los Angeles back in 1921. During World War II, the company survived by cutting prices and production, opening the store just a few hours a day, with frenzied buyers lining up around the block until the candy ran out.

But today, See's faces greater competition as more businesses enter the gourmet chocolate arena. In 2005, for example, candy maker Hershey - producer of Kit Kat and Almond Joy - acquired high-end Scharffen Berger Chocolate Maker of Berkeley.

As Americans pamper themselves with all things decadent, premium chocolate sales are predicted to rise from \$1.3 billion in 2005 to \$1.8 billion in 2008, according to forecasts from market research firm Packaged Facts, the publishing division of MarketResearch.com.

See's also considers other food-product makers as competitors. One year, families might give a box of See's candies for Mother's Day, but the next decide to give an edible gift made by Harry and David or Hickory Farms, Van Doren said.

None of that has changed See's strategy.



"One thing that we have learned is we don't like to overreact," Van Doren said. "There's nothing we need to try and change to counteract what someone else is doing. We know what we do best, so let's continue doing that - making the best chocolates around."

Best year ever

Last year was the best ever for See's, with the company reporting sales of 30 million pounds of sweets, Van Doren said. About half of that sold in December. About 80 percent of See's earnings come in December alone, largely from sales of pre-packed gift candy boxes.

While Berkshire does not break out the candy maker's revenue, the company said in its annual filing that See's pretax profit reached \$27 million in 2006.

In January, See's raised its prices 2.8 percent, to \$14.50 a pound, in response to the higher cost of ingredients and increased spending on employee benefits.

But being part of a big conglomerate has not meant the end of See's folksy touch. Customers still are invited to sample the chocolate of the day, or a product they're curious about.

"They must give away hundred of thousands of dollars of free chocolate all the time. They've got a strong, loyal customer base because of that," said Joan Steuer, president of Los Angeles-based Chocolate Marketing, a consulting firm.

Sticking with old-time favorites has paid off, she said.

"I don't see them chasing trends. They have stayed the course of offering family favorites. They do not have a lot of exotic, crazy things you are not sure you'll like, or have a lot of flavors you are not familiar with."

Contact Michele Chandler at
mchandler@mercurynews.com.