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Photo by John Zick, USA TODAY

**A knead for growth:** Kimberly and Scott Holstein started their Kim & Scott's Gourmet Pretzels in their studio apartment in Chicago. Now, the company has 60 workers and a 25,000-square-foot factory. The Holsteins are appearing on QVC to sell 1.4 million pretzels.

## Pretzel makers shoot for big dough

### Small company goes on QVC with high hopes

By Jim Hopkins  
USA TODAY

Kim & Scott's Gourmet Pretzels is making its biggest bet since opening eight years ago.

The Chicago manufacturer hopes to sell 1.4 million pretzels on QVC today during the home-shopping channel's sports-themed programming leading to the Feb. 1 Super Bowl. That's a huge order for a company that sells just 7.5 million pretzels a year.

To meet QVC's order, founders Kimberly and Scott Holstein spent \$500,000 on employee overtime and pretzel ingredients — money they'll lose if the

perishable pizza-flavored pretzels don't sell. "There's a lot of pressure," says Kimberly.

More than ever, small manufacturers like Kim & Scott's are gambling big to grab shelf space at huge retailers like QVC, Wal-Mart and Target. Big merchants command growing shares of overall retail sales, forcing small suppliers to shift their marketing.

And, contrary to popular belief, big merchants cultivate small suppliers rather than buying only from giants such as Procter & Gamble and Kraft Foods.

But the competition is keen, as the Holsteins' experience shows. QVC, with

\$4.3 billion in annual revenue, annually picks 100 suppliers from about 13,000 who beg for a chance to sell to its 85 million home viewers. No. 1 retailer Wal-Mart, with 23,000 U.S. suppliers and \$243 billion in annual revenue, adds as few as 3,000 suppliers annually.

What's more, suppliers risk getting overwhelmed by orders if their product takes off faster than expected. Worse, they might invest in equipment and staff to meet demand, then lose business to a competitor offering lower prices, says Edward Fox, director of the JCPenney Center for Retail Excellence at Southern Methodist University.

"Most companies will take that gamble"

for a chance to send revenue skyrocketing, Fox says.

New Orleans Coffee, hoping to get into Wal-Mart for the past two years, just won a trial order from the retailer's Sam's Clubs division. It will soon supply about 70 bottles of its coffee syrup each week to two Sam's stores in the New Orleans area. It's also negotiating to sell to Wal-Mart's Supercenter stores.

Founded 15 years ago, New Orleans Coffee has more than \$1 million in annual revenue from sales mostly in the New Orleans area. Wal-Mart could supercharge the coffee company's growth. "Wal-Mart is vital," says marketing chief Adrian Simpson.

QVC, where the Holsteins have been selling in person since December 2002, is just as important to their company.

**Starting small**

Kimberly, 36, and Scott, 37, started the company in 1995 in their studio apartment in Chicago. They shared cramped quarters with two cats and two freezer chests to store pretzels.

The Holsteins hired a chef to develop their traditional, flavored and stuffed pretzels that sell for about \$2.50 each. For mail order, such as through QVC, pretzels are shipped on dry ice, then reheated in the oven or microwave.

The couple contracted with a local baker to produce a line that now includes flavors such as chocolate and apple cinnamon.

The Holsteins initially sold to coffee shops, then expanded to universities, movie theaters and other venues. As revenue grew, they leased their own bakery and added workers. The company now has 60 employees and a 25,000-square-foot factory.

It also has plenty of competition. More than 70 companies, led by Frito-Lay, make pretzels in the USA. Pretzels have less fat than potato chips and other salty snacks. Annual pretzel sales were \$1.28 billion in 2002, down from \$1.34 billion the year before, says the Snack Food Association trade group.

Always alert for opportunities to expand, the Holsteins found one in 2002 when they got an unexpected invitation from the Illinois Department of Agriculture. It said QVC was holding an *American Idol*-style new-product search at the Mall of America near Minneapolis.

They competed against hundreds of firms, from makers of candles to shovels, and won a coveted QVC appearance in December 2002. In two six-minute appearances on camera, the Holsteins sold 156,000 pretzels in front of as many as 85 million viewers.

Those first QVC sales were more than the Holsteins had ever sold in such a short period — underscoring the power of a big retailer. "That was what blew us away," Kimberly says.

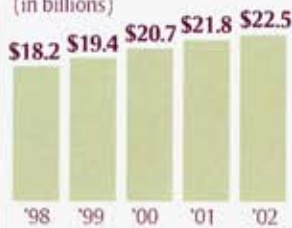
QVC was impressed, too. Since those first two appearances, the Holsteins have appeared 22 more times — selling a combined

**Kim and Scott's  
Gourmet Pretzels**

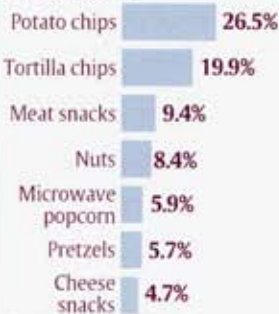
**Based:** Chicago  
**Founded:** 1995  
**Employees:** 60  
**Annual revenue:** more than \$5 million

**Snack facts**

U.S. snack revenue is rising ... (in billions)



... But pretzels account for a small share



Source: Snack Food Association

By Marcy E. Mullins, USA TODAY



Photo by John Zich, USA TODAY

**At work:** Oralia Carrera mixes cheese and spices to put on pretzels before they're baked.

625,000 pretzels, equal to nearly 8% of the company's total volume in the period.

But that's nothing compared with the 58,000 cases with 1.4 million 4-ounce pizza-flavored pretzels that the Holsteins have started moving on QVC. Pizza, a big seller around Super Bowl time, is the most popular flavor among QVC customers. The Holsteins will appear at least eight times over 24 hours, sleeping in the studio between appearances. "It's a pretzel marathon," Scott says.

**First store coming soon**

The Holsteins know they might become too dependent on QVC. "We fight to make that not happen," Scott says.

They're opening their first retail store this summer in Chicago. And they continue looking for more big customers.

Bigger manufacturers face the same issue. Wal-Mart accounted for 18% of Procter & Gamble's \$43.3 billion in revenue in the year ended June 30, up from 11% five years earlier.

But as big retailers account for ever-bigger shares of overall retail spending, companies like Kim & Scott's have few choices.

Even if they don't sell every pretzel today, the Holsteins say, QVC offers a huge marketing boost. "As a small company, to get this kind of publicity is phenomenal," Scott says.