



PAOLO VESCIA

Brent Knudsen, a former Costco Wholesale executive, said he has seen companies either rocket to success or crash and burn after landing Costco accounts.

Getting space on Costco's shelves can catapult local food producers to stratospheric heights, or dismal defeat

HANNAH ALBARAZI
San Francisco Business Times

Costco doesn't just nurture local businesses, it catapults them.

The much-loved big box retailer generated \$88 billion in revenue in 2011, not by investing in small businesses but by teaming up with regionally established companies and pushing them head first into the mainstream consumer market.

According to San Francisco-based investment firm Partnership Capital Growth, the United States' ever-expanding, \$34 billion natural and organic food market has grown by 20 percent each year for the past ten years, allowing small suppliers to move from the farmer's market into national food distribution, and on to the shelves of national wholesale stores such as Costco.

Costco tries to keep each Bay Area store stocked with products made by independently owned local companies, such as South San Francisco-based Columbus Foods, Alameda-based Niman

Ranch and Dublin-based Laxmi's Delights.

Frank Padilla, vice president and general merchandising manager of produce and meat at Costco Wholesale, said the company places the highest priority on attaining quality products, not necessarily local production.

"We source from all over the world. If it happens to be local, terrific. We're working with growers from lots of different countries," Padilla said. Of course, Padilla admitted that the Bay Area has more local products available than other regions due to the tremendous amount of food produced in the region and across the state.

"California has a lot to offer from the Salinas Valley all the way down to the Mexican border," Padilla said.

Padilla also explained that he has seen small companies at all stages of business development approach Costco, and that Costco has been willing to work with companies to grow as long as the consumer demand remains strong.

"They can come to us at any stage and we will help them," Padilla said. "Size doesn't matter. We grow,

they grow. If we buy more, then they have to be growing."

Scaling quickly

Businesses that get their products into Costco warehouses get great exposure for their brands, but not without some potential setbacks.

Brent Knudsen, founder of Partnership Capital Growth and the former vice president of business development and marketing at Costco Wholesale, said he has seen companies either rocket to success or crash and burn after landing accounts with Costco.

"You've got to have consumer traction on a regional basis and the capacity to produce the type of volume that Costco can sell. Costco is not really in the business of nurturing young companies," Knudsen said.

PCG invests in and advises companies with products that promote healthy and sustainable lifestyles. It has helped numerous Northern California compa-

SEE COSTCO, 22



PAOLO VESCIA

"Costco can be a great, great relationship if done right," says Brent Knudsen.

COSTCO: Companies with resources can use Costco deal as a springboard

CONTINUED FROM PAGE 21

panies get their products into Costco, including Wild Planet Foods, located just outside Eureka, and Numi Tea, based in Oakland. Knudsen said "Costco is not a necessary part of any business," but that PGC has helped well-established products such as Naked Juice and Vitaminwater enter the mainstream market, using Costco as a springboard.

"Costco can be a great, great relationship if done right. It is certainly not right for everyone. It can be a blessing or a curse," Knudsen said, emphasizing that young companies don't always have the working capital to expand at the rate that Costco demands.

"Young brands should get traction in other channels before they go to Costco. (If there's a problem,) it's not Costco's fault usually. It's usually the fault of the vendor or company that is being too aggressive," Knudsen said.

'Mutually beneficial'

Costco rotates products in and out of stores depending on the season and consumer trends, which means that smaller companies may need to lay people off and hire again quickly as their products cycle on and off Costco shelves. Companies with diverse retail accounts tend not to be impacted as heavily if Costco temporarily pulls their products from the warehouse shelves.

Hayward-based Columbus Foods is running strong. Columbus Food is a producer of cured deli meats and has grown steadily over the past century. Michael Cruz, director of marketing, said that the 300-employee company has worked with Costco to expand its U.S. distribution and has just placed its products in Mexico and Canada through Costco. Cruz said exporting meat products to international vendors can be difficult, and that teaming up with Costco alleviates Columbus Foods from the burden of exporting issues and expenses.

"It's been mutually beneficial," Cruz said. Columbus Foods, founded in San Francisco in 1917, generates \$200 million to \$300 million annually and can attribute much of its development from a small business into an international one to its 15-year relationship with Costco.

"We've been experiencing double-digit growth. We've been in an expansion mode, and Costco has certainly helped us. They've been a key part of it," Cruz said.

halbarazi@bizjournals.com / (415) 288-4966 ■



SPENCER BROWN

Selling through Costco helped Alvarado Street Bakery reach mainstream shoppers, says Michael Girkout.

Alvarado Street baking co-op is still on the rise

The cooperatively owned Alvarado Street Bakery has maintained its independence while rising to the top of the growing health food industry over the past 30 years. The 117 co-owners of the Petaluma-based bakery have garnered national and international demand for their flourless, sprouted wheat loaves.

"We started a little hippie bakery selling whole grain breads in the San Francisco Bay Area. As time went on, whole grain became much more mainstream," said Michael Girkout, president of Alvarado Street Bakery.

Alvarado Street Bakery has steadily increased the availability of its products. Its whole grain bread is now found in health food stores, major grocery chains and Costco. The company's decision to sell twin packs of loaves at Costco fifteen years ago has made the company more visible and attracted loyal customers, Girkout said.

"They bring us very mainstream consumers," Girkout said.

The bakery is eager to package its loaves in biodegradable

bags when the technology is available and can easily be managed by waste collectors around the country.

While the co-op is pleased with Alvarado Street Bakery's long standing relationship with Costco, and the continued growth of the business, Girkout said he has noticed a misconception about buying in bulk — it doesn't necessarily use fewer resources.

"It's additional labor, another plastic bag, and another twist tag," Girkout said. "We try very hard to be a good steward of the planet." Environmentally conscious business decisions are among the company's top priorities, as sales continue to climb.

On average, Alvarado Street Bakery has been growing between 2 and 4 percent a year in revenue. In 2012, the co-op owners expect to reach \$26 million in revenue, and they are expanding into the international market, Girkout said.

—Hannah Albarazi ■

Goldilocks: A Filipino fairy tale on two sides of Pacific

The story of Goldilocks, a Filipino cuisine and cake manufacturing business based in Hayward, is something of a fairy tale.

The company was founded by two sisters in the Philippines in 1966 and grew so successful there that they decided to bring their cuisine, including favorites such as punch cake and spring rolls, to the United States. They haven't looked back.

Brand manager Agnes Francisco said that Goldilocks established retail locations across Southern California in 1976. By 1979, Goldilocks had opened its first Bay Area store and established the company's national headquarters in Hayward. Today, the company has eight Goldilocks stores in Northern California.

In 1996, retail sales were growing and the company made the decision to expand its manufacturing with the goal of increasing sales of its breads and pastries to additional retail locations and wholesale accounts such as Costco.

The family-run business also owns Clarmil Manufacturing Corp., which maintains the Hayward plant where all Goldilock's goods are made. Jun Macasaet, sales manager at Clarmil said that Goldilocks has been supplying Costco with pastries and Filipino foods since 2000 and he has seen the Goldilocks benefit from the account.

"It introduced us to the mainstream," Macasaet said. "Being in Costco is really good exposure for any company."

Goldilocks works with Costco to expose Filipino cuisine to both Filipinos and non-Filipinos. Macasaet said that there are always minimum sales that Goldilocks must meet and the company must stay on its toes and be prepared for the possibility that someone else may come in with a good



SPENCER BROWN

Goldilocks USA has been expanding since it started in Southern California in 1976, says Agnes Francisco.

product at a lower price.

Goldilocks still does the majority of its business in the Philippines, with more than \$186 million in revenue last year in the Philippines alone. In the United States, Goldilocks generated revenue of more than \$30 million in 2011, Francisco said.

Goldilocks' products let consumers enjoy fine cuisine without having to cook, said Macasaet. "The new generation doesn't cook. They have a wide variety of choices."

—Hannah Albarazi ■

For SugarBowl Bakery, Costco deal helped spur growth

A couple years after arriving in the United States as refugees from Vietnam, the Ly family began SugarBowl Bakery as a tiny coffee shop in San Francisco's Outer Richmond neighborhood, growing the idea into a major baking company.

Andrew Ly, the CEO of SugarBowl Bakery, said that his family gave up their properties in Vietnam and were unofficially permitted to leave the country.

"I got into a small fishing boat, about 45 feet long and with 148 people in 1978. (We) arrived in Malaysia, but they didn't allow us on shore. We allowed water to get into the boat and they had no choice but to let us go ashore.

"A group of reporters took our pictures and asked the Red Cross to pick us up. When the Red Cross gave us instant noodles, I remember it was the best meal of

my lifetime," Ly said.

The Ly family applied for refugee status and soon immigrated to the United States.

Graduating from San Francisco State in 1986, Ly took the reigns as CEO of SugarBowl Bakery and helped expand the family business, running operations from their two baking and packaging plants, totaling 120,000 square feet in Hayward and growing distribution nationwide.

The Ly brothers now employ more than 200 people to bake and maintain business operations. Among the various retail locations where SugarBowl Bakery now sells its goods, the company has a long standing relationship with Costco Wholesale.

"In 2000, Costco was the first retailer to pick us up. It was a huge break for us to get a national account," Andrew Ly said.

SugarBowl Bakery's General Manager Michael Ly said that while Costco is a colossal outlet for SugarBowl's products, the company must maintain flexibility. Michael Ly said that some seasons and holidays demand an increase in production, while other seasons feature competing manufacturers and Costco removes SugarBowl from the warehouse floor completely.

"The last couple years we've hired for the increase in demand. We have expanded our distribution channel too," Michael Ly said. "Management adds and lets go of temp workers as often as necessary. About 80 percent of the company's employees are permanent, while about 20 percent of employees work on a contract basis," Michael Ly said.

— Hannah Albarazi ■



Costco was the first retailer to sign a contract with SugarBowl, says Andrew Ly.



Children, grandchildren and a great grandson of Casa Sanchez founders Roberto and Isabel Sanchez.

Casa Sanchez handed down by generations

Equipped with little more than a tortilla press, Roberto and Isabel Sanchez arrived in San Francisco in 1923 from Nayarit, Mexico. The tortilla press would prove worth its weight in gold for generations to come.

The Sanchez family opened the first mechanized tortilla factory in San Francisco in 1924, marking the beginning of the Casa Sanchez family business.

Originally established in the former Hispanic community located in San Francisco's Upper Fillmore district, Casa Sanchez migrated with the Hispanic community to the city's Mission district.

The Sanchez children and grandchildren have worked to expand the business and offer traditional Latin American fare, such as pupusas, salsa and guacamole while maintaining the business values of their grandparents.

Each member of the family manages an independent division, each catering to a variety of clients, while maintaining family recipes and using the same production facilities.

Martha Sanchez, a co-owner of Casa Sanchez, oversees distribution and the Casa Sanchez restaurant, on 24th Street in the Mission district. Her division has been expanding into Los Angeles, she said.

"Once we got to where I couldn't fit things in my car, we hired people and it grew to where we had a truck being sent down," she said, adding that she is also expanding into Washington, Oregon, Arizona and Hawaii.

Martha's brother Bob Sanchez is also a co-owner and oversees the manufacturing and distribution of all the Casa Sanchez products that are sold in Costco stores, a major account for the family business.

"To deliver to Costco, we have to be on our A-game," Bob Sanchez said. "We kind of cut a new deal every time we go in there. ... We make less money on sales, but we have increased sales."

Casa Sanchez' revenue has been increasing about 12 percent annually for the past five years, with more than \$8 million in revenue in 2011, Bob Sanchez said.

With more than 50 employees, Casa Sanchez runs production from a 20,000-square-foot warehouse in Millbrae.

"We get along as a family and a business," Bob Sanchez said. "We want to be neighborly and grow at the pace we can."

— Hannah Albarazi ■



Sukhi Singh began by making curry pastes just for herself and her family.

Straight from Sukhi's kitchen

Sukhi Singh only started preparing concentrated curry pastes for use in traditional Indian dishes to save herself and her family time and money. But to her surprise, her sauces were a hit.

Other families wanted the spices and the savings, too. So in 1992, Sukhi's Gourmet Indian Foods was born. She started the business cooking in a rented kitchen in Emeryville, relying on her family to help her with packaging the products.

Singh began selling her sauces and chutneys at the Mountain View and Pleasant Hill farmers' markets and then at Berkeley Bowl. Within the first year, her products were in 110 Bay Area stores.

By 2000, the company had outgrown its second location in San Leandro and moved to Hayward, where it continues to add space to the 16,000-square-foot packaging facility and 32,000-square-foot warehouse and kitchen.

Today, Sukhi's products are available at 25 Bay Area farmers markets, including the Ferry Building and United Nations Plaza in San Francisco. Sukhi's products have gained traction in the mainstream market as well and are now stocked at hundreds of major grocery stores across the country, including Costco.

Sukhi's products gained popularity because they solved an increasing dilemma for immigrants of Indian descent arriving in the United States: too many spices, too little time. Singh has created more than 100 products ranging from concentrated hot sauces to frozen meals and estimates that about a quarter of her company's sales come from its Costco account, where items such as halal chicken tikka masala fly off the shelf week in and week out.

Singh said that while business is strong, she isn't able to compete with the low prices of Indian importers.

"It's a totally different ball game over there," Singh said of her competition based in India, which she said can offer lower prices to consumers because there are fewer regulations to follow.

Sukhi's is on course to reach \$15 million in revenue in 2012 and the company continues to grow. Sukhi's employs more than 130 staffers, who run everything from manufacturing to the farmers market stands.

"Costco is a great growth tool. They give you an order up front, and if it does well they will keep it," Singh said. "It gives you a lot of brand recognition, especially in the Indian community."

— Hannah Albarazi ■