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3 CANDYRIFIC LLC

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'Impulse business' satisfies consumers' sweet tooth

BY SHANNON LEONARD-BOONE | CORRESPONDENT

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Business isn't merely booming at CandyRific LLC, it's also colorfully spinning and illuminating.

The novelty candy developer and manufacturer, perhaps known best for its push-button light up candy pop fans, had 2007 revenue of \$17 million, with retail store sales of \$35 million, president Rob Auerbach said. That's compared to \$12.9 million in revenue and \$30 million in retail store sales in 2006.

Despite a sluggish national economy, Auerbach said his business has been able to thrive because even when money is tight, people still crave treats.

"We're an impulse business," he said. "One of the things that people like to do in a down economy is reward themselves and their families with affordable luxuries — and we're talking three bucks."

Capitalizing on brand names

CandyRific, which has produced candies promoting movies such as "Shrek the Third" "Spider-Man 3" and the upcoming "Madagascar: Escape 2 Africa," has obtained licenses to create 15 new items for Mars, which makes M&Ms, Skittles and Starburst candies.

It also has licensed candy brands for Disney, Warner Bros., Etch A Sketch and Slinky.

The company also made the entrepreneur magazine Inc.'s 5,000 list of fastest-growing private companies in the United States for the past two years, ranking at number 322 in 2007 and 722 in 2008.

When the magazine published a top 500 list in 2006, CandyRific placed at 181.

And for the second year in a row the company has placed in the top five of the Fast 50. It was the No. 2 Fast 50 company last year.

Obviously the business challenge has not come in sales. Auerbach points to success with great products,

high-profile licensing deals, reliable execution and delivery of valuable products, a good niche market and respect in his industry.

But logistical matters have posed difficulties for the candy maker this year.

Doing business in China has hurdles

First, production has been a challenge as plastics, which are part of the CandyRific product, are made from petroleum materials, which have grown more expensive as the price of oil has risen. One solution Auerbach is exploring calls for using corn-based plastics that also are more environmentally friendly.

Another complication is that the majority of CandyRific's operations are in China. There are labor shortages and rapid employee turnover rates in the southern region, where his products are produced, Auerbach said.

Plus, the Chinese government is clamping down with new regulations affecting the way he does business — he describes it as the level of U.S. government regulations "times 10."

For instance, Auerbach operates separate factories in China for parts manufacturing and assembly of CandyRific products.

Now Chinese officials require a separate inspection of the parts between manufacture and assembly, which wasn't always the case.

Because of what he calls "overzealous regulation" in China, some of his suppliers are going out of business, buckling under the added pressures of oil and labor prices and printing costs.

"We're having a very difficult time holding pricing" at

current levels, Auerbach said.

And these sour circumstances also are creating delays in shipping his candy products back to the United States, Auerbach said. He's compensating for that by moving up his ordering and shipping dates to allow more time for delivery.

For example, this past summer the factories already were producing Easter products for 2009.

ABOUT CANDYRIFIC LLC

What it does:

Manufactures and develops novelty candy

Principals: Rob Auerbach, 56, president, and Paul Roberts, 52, vice president

Address:

Headquarters is at 3738 Lexington Road. The company has offices in Hong Kong, St. Louis and Philadelphia and also operates three warehouses.

Employees: Nine

Founded: 2000

Web site: www.candyrific.com

Most significant recent

development: CandyRific has obtained licenses to create 15 new items for Mars, which makes M&Ms, Skittles and Starburst candies. |

growth:
150-
199%+

Broker says reliability is key

CandyRific-produced items are available nationwide and in more than 40 countries. They are in major retailers such as Target, Walgreens and Blockbuster.

JEM Inc. president Mike Odenbach, whose Bloomington, Minn.-based company is a broker for clients including Target, has represented CandyRific for about seven years.

"They're a reliable vendor as far as order processing and shipping," Odenbach said. "If you're not reliable, you won't be around."

As a broker, Odenbach presents products to buyers at retailers' corporate headquarters, where the decision is made about whether to order particular products for their stores.

There are different buying groups within the departments for purchasing Halloween and Valentine candy, Christmas and Easter candy and candy that can be sold anytime of year, he said.

"What (CandyRific) has really excelled in is interactive candy," he said. "They've done a very good job at that. They've also done a very good job at securing good licenses."

Joe Perfetti, a Walgreens broker with Perfetti Sales & Marketing in Countryside, Ill., was approached by CandyRific about four years ago to represent their products to store officials.

Auerbach is a hands-on owner overseeing a reliable, top-notch staff that creates quality products, he said. And, CandyRific's licensing deal with

Mars is another sign of continued success, he added.

'Above the curve'

"They are always above the curve" when it comes to candy innovations, Perfetti said. "They've always been able to adapt with the times and what's popular."

He also hailed the quality of CandyRific's plastic molding for the light-up fans and the company's ability to create unique candy with added play value.

Keeping busy

In his spare time, Auerbach owns a Navajo eight-seater twin-engine airplane that he flies for both business and leisure, and he also enjoys riding bicycles and horses. Plus, he's an avid horse-racing fan.

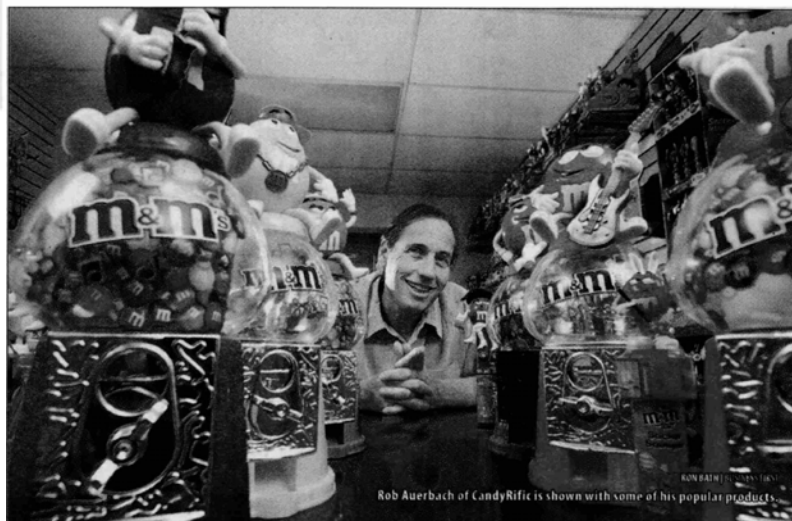
Auerbach, who also owns Rainbow Blossom Natural Food Markets in Louisville, said his dream job is the one he now holds.

Like many entrepreneurs, he said, "I do what I love. This is my dream job."

Looking ahead, he is guiding CandyRific into an expansion into nonconfectionary products, such as novelty stationery that could be carried by the same retailers who carry the candy.

Auerbach also strives to have a good balance of his sales among different retailers — not putting all his candy in one basket, so to speak.

"We are in this for the long term, so I see steady growth over the next decade," he said. |



Rob Auerbach of CandyRific is shown with some of his popular products.