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## Italian ice entrepreneurs fear getting frozen out of shelf space

By Jim Hopkins, USA TODAY

Max Lapin and Alex Plotkin had no idea they would hit manufacturing's mother lode — nailing Wal-Mart as a customer — when they started an Italian ice treats company 12 years ago in Tampa.



PhillySwirl founders Max Lapin, left, and Alex Plotkin.

By Preston Mack for USA TODAY

They just wanted to sell a dessert they knew from college days in Philadelphia. The young entrepreneurs cobbled together \$10,000 for machinery and a wheezing truck. They shared an apartment and slept in shifts as they mixed batches of the scoopable treat.

Their work paid off as their tiny company, PhillySwirl, scaled retailing's heights. Four years ago, it reeled in the big kahuna: Wal-Mart's Supercenters, now the biggest grocer. That vaulted PhillySwirl's annual revenue 30% to \$6.5 million and made it a national brand.

But success bred competition that threatens PhillySwirl's future. Most recently: Unilever, the multinational whose marquee dessert brands include Breyers. It launched a frozen bar similar to one of PhillySwirl's signature treats, Lapin says. "In every retail store we're in, they're in," he fumes.

PhillySwirl's plight underscores the double whammy bearing down on many small manufacturers. On one side, they're pinched by retail giants demanding rock-bottom prices. On the other, they're squeezed by larger competitors big-footing their way down retail aisles. As pressure swells, PhillySwirl and other small producers scramble to cut costs, raise productivity and innovate.

### About PhillySwirl

**Based:** Tampa  
**Founders:** Max Lapin and Alex Plotkin  
**Estimated 2004 annual revenue:** \$17 million  
**Employees:** 85  
**Product:** Sells 100 million Italian ice treats annually packed in cups and on sticks at \$2.50 to \$3.50 a box

The squeeze comes as the USA suffers a sharp decline in better-paying factory jobs, about 3.2 million lost since manufacturing employment last peaked in the late 1990s. Many jobs evaporated amid consolidation as manufacturers such as Unilever gobbled up small fry such as Ben & Jerry's in 2000.

PhillySwirl, now with \$17 million in annual revenue and 85 employees, offers a rare peek at how a small company won coveted space in Wal-Mart's freezer cases. Small firms seldom create new foods

for big retailers, says Jim Tillotson, a Tufts University professor who studies foodmakers and big retailers. Unilever and seven other companies control up to 70% of the "fun food" category — frozen treats and soft drinks — he says.

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What's more, few entrepreneurs such as Lapin, 35, and Plotkin, 34, are drawn to an industry with such long odds. Of more than 30,000 foods launched last year, just 0.7% — 223 — had annual sales of \$7.5 million or more, says Tara Weiner, managing partner of consumer business at Deloitte & Touche.

### **Cold-calling Sam's**

Luck struck for Lapin and Plotkin in 1998.

Six years after the law school drop-outs started PhillySwirl, they discovered a Sam's Club regional office 85 miles away in Orlando. Until then, their fledgling business had grown as they peddled treats from a battered ice-cream truck at sporting events and from rented stores.

They cold-called the Sam's buyer for ice cream, persuading him to taste a PhillySwirl. "He loved it," Lapin says.

Sam's, Wal-Mart's membership club chain, gave entrée to a much bigger market in Florida: six stores at first, then 20 more. But PhillySwirl had to meet Sam's Club demands. They got their first big bank loan: \$70,000 for the company's first computer and new packaging equipment.

Wal-Mart's gamble on a start-up such as PhillySwirl contradicts its image as a retailer buying often from other goliaths at the expense of small firms. The retailer doesn't reveal supplier details. It says only that it adds as many as 5,000 new companies annually to its more than 23,500 U.S. suppliers.

PhillySwirl's next big break came in 1999, when the Sam's buyer encouraged Lapin and Plotkin to try selling to Wal-Mart's Supercenters, a combination discount store selling clothes, electronics and other fare with groceries — the chain's big growth engine.

Lapin sent samples to the Bentonville, Ark., headquarters. The reaction: PhillySwirl needed to prove that its treats, still sold mostly in Florida, had lasting consumer appeal. "Keep proving it," Lapin was told.

A second chance came nine months later. Lapin sent more samples: about 20 cups packed in dry ice. This time, the buyer bit.

Lapin remembers an "unbelievably important" 20-minute phone call.

"My heart was racing because I knew this was going to be the difference between us getting to the next level, an opportunity no other supermarket chain could give us," he says.

Lapin suspected PhillySwirl would make the cut when the buyer honed in on more detailed questions: How would it ship? What was PhillySwirl's capacity? Could it distribute outside Florida?

The founders had been making deliveries with a company truck. Now, Wal-Mart said they had to hire outside shippers and beef up their computer system. PhillySwirl tripled its factory space and got a \$300,000 bank loan to pay for inventory and a bigger payroll.

In January 2000, Wal-Mart tested PhillySwirl in Florida, Pennsylvania and New York to see how the treats sold in different climates. At a minimum, Wal-Mart said, PhillySwirl had to sell 10,000 cups per week across 120 stores. Within months, Lapin and Plotkin more than succeeded.

Five months after placing its first Supercenters order, Wal-Mart asked PhillySwirl to supply an even bigger market: about 750 Supercenters as far west as New Mexico. That challenge, satisfying Wal-Mart's voracious appetite, is a problem small companies face if they supply the retailer, says business consultant John Mariotti. The former Rubbermaid executive calls it "taking a drink of water out of the fire hose."

PhillySwirl could have turned down Wal-Mart and still supplied its East Coast stores, Lapin says. But Wal-Mart might have found another firm to supply the product PhillySwirl brought to its attention in the first place.

"There was nothing in the world that was going to make me say no," Lapin says.

### **Fighting off Big Foot**

PhillySwirl's biggest threat now might be Unilever. The Dutch giant, with more than \$40 billion in annual revenue worldwide, has a far-flung portfolio — from Bertolli Italian foods to Wish-Bone salad dressing — and a marketing machine to match.

PhillySwirl already competed with Unilever in the frozen treats market, where Unilever sells brands Klondike and Popsicle in addition to Ben & Jerry's and Breyers.

In January, Lapin learned Unilever was launching Breyers All Natural Fruit Swirls ice bars. Its package looked much like PhillySwirl's. So did the contents, 10 bars vs. 12 of PhillySwirl's. Lapin's reaction? Uh-oh. "We had a lot of work to do."

Unilever said it rolled out the bars in May, but declined to talk about the product's history or marketing.

Fighting back, PhillySwirl added two more pops to its box, a total of 14, without raising prices. It redesigned the package "so it popped off the shelf more," Lapin says. It reviewed its manufacturing lines for inefficiencies. And it promised bonuses to workers for meeting production goals.

The model company for PhillySwirl's founders, ironically, was Ben & Jerry's, the quirky ice cream maker whose founders sold to Unilever four years ago. "That was a shock to us," Lapin says.

He and Plotkin aim to stay independent amid heightened competition. But like other small manufacturers, PhillySwirl faces tough odds as the industry overall consolidates.

The number of U.S. manufacturers with 20 to 99 workers — PhillySwirl's range — fell 5.3% from 1998 to 2001 vs. 4.2% for all manufacturers, the latest federal government data show. In the food industry, as many as 800 companies merged annually throughout the 1990s, says Tillotson, at Tufts.

PhillySwirl, in an eat-or-be-eaten industry, likely will go a similar route as its growth needs outstrip available capital, says Tillotson. "Somebody will buy them out," he predicts.

No dice, say Lapin and Plotkin. PhillySwirl can ramp up production to four times today's levels without spending a dime. Staying independent, controlling their future, is critical. "It's who we are," Plotkin says.

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