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“Going gluten-free may be good for you—as well as for these start-ups.”

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SHOULD YOU have wanted gluten-free pizza in the hamlet of Fountain Hills, Ariz., a little more than a year ago, you would have been out of luck. Now three pizzerias in town sell it. That’s a reflection of the current antiwheat zeitgeist: U.S. sales of gluten-free products, rising at 30 percent a year, will reach \$5 billion in three years, says market researcher Packaged Facts. And those sales go well beyond the 3 million Americans who have a bad physical reaction to gluten, the protein found in wheat—they also reflect yet another turn in our endless cycle of food trends.

Fad or not, these wheat-free businesses offer lessons that can apply to any start-up in the mushrooming category of specialty foods. In a weak economy, consumers scarf down specialty foods as affordable luxuries and as a way to express their individual tastes—jalapeño-chardonnay jam, anyone? “We are a ‘me society’ looking for products to match who we are,” says Diane Holtaway, of the Rutgers Food Innovation Center, in Bridgeton, N.J., one of several food-business incubators in the U.S. that assist people who want to bring their products to market.

243%
Increase in
gluten-free
businesses
since 2007

Like flies to avocado-flavored-honey, specialty-foods entrepreneurs are drawn to the low start-up costs, a welcoming marketplace and potential high profit margins. Jessica Mindell, an industrial engineer in Birmingham, Mich., decided to make gluten-free granola; she launched Jessica’s Natural Foods in 2009. One of the first decisions Mindell faced—like any incipient food founder—was whether



to build her own factory or find someone else to make her stuff. Mindell couldn’t afford and didn’t want the hassles of running her own granola plant, so she hired a contract baker, or third-party manufacturer.

With the first 900 bags of her granola stuffed into two family cars, she drove home and made the rounds to local grocers. Enough were willing to try a case or two, and she found she had a business. She networked and cold-called until her granola was stocked in

a few dozen Whole Foods stores and at Hiller’s Markets, a Michigan mini chain. The business that cost her \$50,000 to start was profitable in six months, she says, and she estimates it had \$500,000 in 2011 sales.

But less than three years later, Mindell’s success story may be harder to duplicate. There’s been significant consolidation in the contract-manufacturing industry. It was easier to find a food manufacturer to take on small jobs five years ago, says Mike Singh, owner of Ag Commodities, in Tustin, Calif., which makes nutrition bars for multiple brands. Now, Ag and many other manufacturers won’t accept orders smaller than 50,000 units. That’s challenging for a start-up, unless it has very deep pockets, Singh says. “I tell them I can make the bars, but where are they going to get sales?”

That’s where getting into the manufacturing biz can pay off. When Matt Herzog joined Funky Monkey Snacks in 2007, the start-up had no buyers for its freeze-dried fruit snacks, but it did have one advantage: a Brazilian factory to make them. Herzog, formerly a Yoplait Whips brand manager at General Mills, was able to channel all his energy into marketing. He contacted individual retail stores (a must-do, says Rutgers’s Holtaway), sent his samples to buyers and attended trade shows to create initial sales. Once Herzog persuaded a store to carry Funky Monkey, deals with distributors

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followed; four years later, the brand is selling in Target, Safeway and several other grocery chains.

Selling at Target is not every food founder's dream. It would be more like a nightmare to Lauren Fleshman, a champion 5,000-meter runner and co-owner of Picky Bars, a gluten- and dairy-free snack bar. Fleshman says she and her partners (including her husband, Jesse Thomas) don't want their baking to get in the way of their careers as professional athletes. The bars are being stirred up in Fleshman and Thomas's kitchen at a modest pace of 8,000 a month, and they're sold mostly at fitness-gear stores and on-line. "We don't want to force them down people's throats," says Fleshman. And if demand surges? Ideally, they'd partner with a local factory.

For those who do choose to go big, the course of food love doesn't always run smoothly. Kathleen King started preparing to open her bakery operation, Tate's Bake Shop of Southampton, N.Y., back in 2000. But her attempt to use a Pennsylvania contract baker became "disastrous," she says, when its version of her company's crisp cookie came out with the wrong texture. Plus, she discovered that the baker was selling her cookies at local stores even after she rejected them, with her company's label still on the packaging. Says King, "All I got was aggravation." She brought her cookie-baking in-house, and since then, things have brightened: She has had to expand her facilities four times to keep up with growing demand, she says. With her increasing payroll and expenses, King used to feel at times that she could focus only on growth. "There was no time to screw around," she says, "I just executed." But looking back, the stress was worth it. These days, she's baking a million cookies a week and fielding calls from private-equity firms interested in potentially buying her company. And she has further expanded her \$12 million-plus in annual sales by adding—what else?—a gluten-free cookie. ☺



SELLING "HEALTHY"

The \$26.7 billion organic food market is increasingly crowded with competitors. Studies by the Cornell University Food and Brand Lab offer the following insights that apply to marketing a healthy snack:

- ▶ **Label carefully.** Health claims on the front of a package tend to be more effective if they're short and punchy; save the details for the back of the package—or your website.
- ▶ **Exotic isn't always better.** Labeling that emphasizes an unfamiliar ingredient—soy, for example—can have a negative effect on consumers' attitudes about your product.
- ▶ **Find the "influencers."** About one in five cooks is a novelty seeker who's likely to share their foodie opinions with family and friends, according to one Cornell study. (Many of these influencers are motivated by taste, rather than by "it's good for you" health claims.)



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