



Ambition, peanut butter, at core of Swain's chocolate business

By JENNIFER McENTEE Friday, March 19, 2004

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The story of how Jerry Swain started his chocolate business is so darn saccharine, well, it should give you cavities.

As a college student, Swain would make chocolate-covered peanut butter balls in his parents' Indio, Calif., kitchen. His family loved them. His college friends loved them. He held parties to serve them to large groups of admirers.



It was a hobby built on friendship, giving and the simple love of sweets, says Swain. And yet commerce beckoned. Swain became a salesman and eventually a sales manager for **IBM Corp.** (NYSE: IBM). He held marketing and business development positions at two San Diego firms, then began his own business consulting practice.

But Swain had a business idea that he just couldn't shake. Chocolates. Encouraged by his father to pursue his dream, Swain traded the corporate life for that of a confectioner's. Solana Beach-based **Jer's Handmade Chocolates** was incorporated in 2000, and began selling chocolates with peanut butter centers a little more than a year later. "I think one of the disadvantages, although advantages, of me getting into this industry is I was completely ignorant," Founder and CEO Swain said in a recent interview. "I made a chocolate ball at home, and that's about it. I think if I had known too much, I wouldn't have made the leap."

He went to trade shows and manufacturing facilities to educate himself on the chocolate industry. Unlike the intellectual property-sensitive tech industry, Swain says fellow chocolatiers graciously imparted their wisdom. They taught him the difference between cocoa butter chocolates and compound chocolates, and explained how pairing the center with the chocolate is like pairing food with wine.

There are three basic types of **Jer's Handmade Chocolates**: **Original IncrediBall**, which has peanut butter and rice crisp in milk, dark or white chocolate; **Pretzo Change-O**, which combines peanut butter with pieces of pretzel in milk, dark or white chocolate; and **Cara Mella**, which mixes peanut butter and caramel, in either milk or dark chocolate.

While the brand names are trademarked, patenting the chocolate combinations is not practical, according to Swain. Anyone can claim they've melded peanut butter with chocolate in their kitchen for the past 30 years, and replication is too easily accomplished, he said. "I think anybody can go out and try to duplicate a Mrs. Fields' cookie if they wanted to. And if they really wanted to take a cookie to the lab

and figure out the components of it, they could probably come pretty close to it. I think that's the way it is in food -- you come up with an idea, and if it's good, it'll be copied."

Swain's chocolates are made in 30- and 60-pound batches at a production and distribution facility in Los Angeles. True to the company's name, the chocolates are scooped, rolled, dipped and decorated by hand.

With a full-time staff of just four people, much of **Jer's Handmade Chocolates'** work is outsourced. Operations, marketing and sales are done out of the Solana Beach headquarters. The chocolates are sold online, by phone and in 30 to 40 stores, Swain said. Select **Nordstrom** (NYSE: JWN) and **Safeway** (NYSE: SWY) stores carry the boxed chocolates, as do independents **Harvest Ranch Markets** and **Seaside Market**.

While individual box sales are high around Valentine's Day, Mother's Day and Father's Day, about 80 percent of the company's shipment volume is in the fourth quarter. During the holiday season, corporations will order large numbers of boxes for customers, vendors, meetings and parties, Swain said. **Jer's Handmade Chocolates** typically sell for about \$25 per pound. Total sales are projected to reach \$500,000 this year, Swain said.

There is enormous competition for America's sweet tooth. **Hershey** (NYSE: HSY), Nestle, See's and Godiva are among the chocolate heavyweights.

"They make specific types of chocolates, and they make box chocolates as well, but the reality is they all make the same flavors," Swain said of his industry rivals. "They may be shaped differently, they're obviously in different packaging, there's a different presentation. But the reality is they all make chocolate caramels and butter creams, specific types of truffles, nuts ... There's no differentiation between those."

Swain said his chocolates stand out for their homemade quality and premium ingredients, including all-natural peanut butter.

"It tastes better. A lot better," he said. "In fact, we tried using a homogenized peanut butter and it's amazing the difference in the taste.

Homogenized, from a business standpoint, purely financially, is a better way to go because it's a lot easier to use and it's less expensive. But the all-natural stuff, even though it's more difficult and more expensive, it's a huge difference in taste. "That's what we're focused on. We want great, unique tasting chocolates."

Jer's Handmade Chocolates began seeking venture funding this year. It's also working to make its brand more widely known.

"How we get there, we're working on. Obviously, as a small company now, we have day-to-day hurdles."

See Jer's Handmade Chocolates: www.iwantchocolate.com