

**Dean's Executive Leadership Series - Pepperdine University / DELS  
2007-2008**

**Transcript of Presentation by Robert Simpson, President and Chief  
Operating Officer of Jelly Belly Candy Company – Part 1**

**About DELS:** The Dean's Executive Leadership Series at the [Graziadio School of Business and Management](#) features in-depth audio or video interviews with today's top business practitioners and thought leaders. [Listen](#) or [subscribe](#) to the podcast to hear their views and insight on the current challenges and opportunities facing the business community.

#### Start ####

**Narrator:** The Graziadio School of Business and Management at Pepperdine University proudly presents the Dean's Executive Leadership Series. This podcast invites top business practitioners and thought leaders to share their view on the real world of business.

**Dean Linda Livingstone:** Good evening everyone. I'm Linda Livingstone, Dean of the Graziadio School of Business at Pepperdine University and I want to welcome you to our Dean's Executive Leadership Series. This is the fifth, I believe, in our series this year and the first time we've done one in Northern California. So we appreciate so much all of you being here and being a part of this. Before I introduce our speaker which I know is why you're all here this evening to hear our wonderful guest speaker, I do want to give you just a brief update on some things going on in the school and remind you of some upcoming events that we're going to be having here in Northern California to keep you engaged and give you a variety of experiences together. Just a couple of updates on what's going on in the school.

We actually have our spring graduation coming up in, I guess, a little over a week-and-a-half on Saturday the 12<sup>th</sup> of April. Do we have anybody in here that's actually graduating on that Saturday? No. I know we've got some that are graduating in December of next year. There we go. EMBA 70 they are fired up

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about that and ready to go. But we're looking forward to that. We have nearly 300 students graduating. As you know, we do three graduations a year so it's quite an experience for us. And we're really fortunate we have this year as our keynote speaker who's going to receive an honorary doctorate, Bonnie McElveen-Hunter. She is the founder and CEO of Pace Communications, was also an ambassador to Finland. But what she really does now is she's the Chairman of the American Red Cross. And so she brings a really interesting wealth of business, public service, and sort of non-profit experience and is going to talk about kind of how that blends together in her life. We'll also be honoring one of our distinguished alumni Alejandro Bustamante [ph] who graduated in 1982 and he runs PlayMex which is a Mexican affiliate of Santa Cruz-based Plantronics Incorporated. And so we're really looking forward to that. And it's a great way- two of my favorite times of the year are when I get to greet new students as they come in and then when I get to congratulate them as they leave and graduate. So it's going to be a great time in about a week-and-a-half.

Also, we just had our fourth annual business plan competition and that is a competition that's open for all students of Pepperdine to participate in. And we gave about \$26,000 in prize money to finalists and it was interesting this year. We had four finalists. They certainly are open from all of the schools of Pepperdine. The four finalists this year though were a team from our full time MBA program, a team from one of our EMBA classes, a team from our morning MBA program and a team from our fully employed MBA program. So we had almost every program represented kind of unexpectedly. And then the team that won-- we also give out a socially, socially-oriented award to the business plan in the competition that kind of has the most social focus. And that was actually won by a Seaver College team and Seaver College is the undergraduate college at Pepperdine. We really had wonderful representation and great presentation in that. We're actually looking at ways we might be able — and I'm not going to promise anything for next year — but making plans to try to think about how we could expand, even give alumni an opportunity to participate in that competition. So we're hopeful that that will continue to grow and develop and expand opportunities not just for our students for our alumni as well.

And then last reminder is just related to our online journal the *Graziadio Business Report*. If you're an alum and are signed up for that it comes to you regularly. We've added a new piece to that, which is a blog component, where one of our faculty will blog about an issue of interest to them and then you can certainly have an opportunity to contribute to that. But you can go on our website and access that if you don't have it e-mailed to you automatically, but it's a wonderful resource that kind of keeps you updated on some of the interesting research that's going on among our faculty in the school.

Three events I want to mention briefly before I lead into our speaker that are coming up here in Northern California. On Friday, May 2, we're going to have a golf outing at Poppy Ridge Golf Course in Livermore.

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And so if you're a golfer then do that. If you're not a golfer come and have anyway with everyone that's participating. On Tuesday, May 13, we're going to have entrepreneurs revealed. That will be an entrepreneurial forum and it will be here in this area. And then on Wednesday, June 11, Ken Starr the Dean of the Law School is going to be speaking here for a broad Pepperdine event and that topic of that forum will be on ethics and that will be a wonderful opportunity so I encourage you to be a part of that.

I also want to thank anyone who's a part of our Graziadio alumni network leadership group here, would you all standup and be recognized. Everybody's who's a part of the leadership council here give them a hand. This is a great group. They have just put in so much time and effort to really build and grow our alumni base here and to bring opportunities to network and for ongoing education and just some fun things like the golf outing so I really appreciate the time and effort all of you put in and really helping grow our network up here and continue to build the reputation of the Pepperdine name.

Well, the reason we're all here is to learn about jelly beans tonight. You see, you can't even say it without everybody laughing, can you Bob? It's great. I was telling Bob earlier our last DELS speakers was Bob Eckert, the CEO of Mattel, so we're just really into this sort of fun mode with our Dean's Executive Leadership Series. We go from toys to candy and you've got to love it. So I've got some jelly bean facts for you and not just Jelly Belly jelly bean facts, these are jelly bean facts more generally. And I just don't know if you guys know these things and I think you should know this before you leave tonight.

So April 22 is National Jelly Bean Day. Did you know that there was National Jelly Bean Day? It's amazing. On October 15, 1999 the world's largest jar of jelly beans was unveiled. It weighed, any guesses? I don't know if this was your jar or not, probably not. Six hundred fifty pounds is what it says here. So big jar of jelly beans. Each year U.S. manufacturers produce more than how many jelly beans for Easter alone? Sixteen billion jelly beans just for Easter. Wow. A lot of hyper children running around out there on Easter afternoon. And then the other thing Bob will probably tell you is that everybody has their Jelly Belly story so I'm going to tell you mine and then I'm going to introduce Bob to speak to you.

My family and I have a daughter who's 11 and my husband went to Mammoth to ski last week on their spring break and they went with a couple of other families. And so I was out of town when my husband packed for the trip so he went to Costco to buy snacks for the trip. So needless to say we had lots of large containers of snacks for the trip. And one of them, if you've been to Costco they have Jelly Belly jelly beans in these really large containers. Have any of you ever seen those? How many of you have bought those giant containers? Okay, there you go. So my husband bought one of those for the trip. And when I saw it I thought oh my gosh how could anybody eat that many jelly beans. So we get there the first

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night, we had pizza for dinner and then I was down packing or something and I came upstairs and the kids were all sitting in the living room passing around the container of Jelly Belly jelly beans and it was half empty by the time I realized they were eating it. Needless to say I took it away from them very quickly so we could sort of distribute them across the whole trip but by the end of the trip the entire huge container of jelly beans was completely gone and it was lots of fun driving home with those children from Mammoth for seven hours.

So anyway, it is just a pleasure to be here tonight with Bob Simpson. I'm going to introduce him to you, give you a little bit about his background and then he's going to share some with you about his experiences and what's going on at Jelly Belly. We'll then transition to a little bit of Q&A between he and I and then we're going to open it up and give you guys plenty of opportunity to ask questions as well and be a part of the evening.

Robert Simpson is President and Chief Operating Officer of Jelly Belly Candy Company. It is a family-owned and -operated company in its sixth generation of candy makers, which is an amazing accomplishment for a family business to last for six generations. It's headquartered here, very close in Fairfield, California. They, of course, manufacture Jelly Belly jelly beans which were made famous by Ronald Reagan. And they also have 100 gourmet confections sold in over 35 countries around the world. The company has 700 employees with manufacturing plants in North Chicago, Fairfield, California and very recently in Thailand. In his position, Mr. Simpson is responsible for the company's executive and operational functions in all of their markets both national and international as well as overseeing their retail operations. And he reports to the chair of the board who is one of the members of the family that founded the company in the late 1800s when they were founded.

He came to Jelly Belly after a 30-year career at Raley's Incorporated, which is a supermarket chain. He is a native of Sacramento and I think he said fourth or fifth generation Sacramento person. He and his wife Carolie [ph] live in Fairfield. They have a daughter, Allison [ph] who's a freshman at UC Davis and a daughter who lives in Virginia and has two grandsons, I believe, in Virginia, so that's wonderful. So it is just a great pleasure to introduce to you Mr. Bob Simpson and we're very much looking forward to your remarks tonight. We're too close together.

**Robert Simpson:** We're too close together. Thank you, Dean Livingstone. Thank you for the nice introduction. It's great to be here. So you see these boxes on your table in front right. How many of you all ready opened their boxes and found something that they didn't really particularly appreciate. Well, you weren't supposed to do that. It is April Fool's day so it's a great way to start off. How many of you have

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been to our tour in Fairfield? Raise your hands. A few. How many of you have never had Jelly Belly and you don't know what we're talking about? Is there anybody here in the room? Good. So we have common ground to start the evening.

Well, what business do you think Jelly Belly is in? Are we in the candy business? Yes. But I mean really what other business are we in? Any ideas? Retail. Pleasure. Somebody said fun. Yes, smiles, fun, exactly. That's what we think that we're in and that goes back for generations and that's what we try to do at work every day and it's been the culture of our company is to have doing what we do and bring smiles to everybody's faces. And we have a set standard at Jelly Belly and that's primarily what I want to talk about is our culture and culture of innovation and how we do things. It's not just what we do, but how we do things that's important. And along the way you'll learn a lot about how Jelly Belly got to be the President's favorite brand and a very iconic brand around the world. So I'm happy to be here and walk you through that.

This is a brand new product BeanBoozled and I thought it was very appropriate to bring that to the table today. So are you going to open your boxes? Those who were patient and didn't open their boxes, you can open your boxes and pour a few out on the table there and you'll see that here are different colors, right. And everybody loves licorice, right? Who doesn't like licorice? A few people. How about peach, does everybody like peach or coconut? Everybody loves coconut. So you'll see there are some white ones in there. Has anybody heard of Bertie Botts Every Flavor Bean in Harry Potter and all of those gross flavors that we helped make for Warner Brothers back then? Well, this is similar to that. We have a caution sign on here. We dare you to compare right the flavors. So these two. One is buttered popcorn and one is not.

**Linda Livingstone:** One would be Rotten Egg, I believe.

**Robert Simpson:** Do you want to try that? Who has enjoyed the pleasure of eating Skunk Spray? We got a couple. And you lived to tell about it. You admitted it right? How about toothpaste, any takers there? Can you tell it wasn't Berry Blue? You know Top Banana is one of my favorite flavors who got Pencil Shavings out of that, right. That is great but then there's the gross thing. Juicy Pear is really one of my favorites but did anybody get a chance to taste what Booger is and you admitted it. How do you know what it takes like? Is it made with real ingredients, right? Well, now see you all get it. Now you know what business we're in. You're all smiling so we can get started. First of all it's a pleasure to be here. Thank you for the very nice introduction. My good friend Larry Hebert in the back of the room my

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lifelong buddy here. I admit it. We were college roommates together. And he asked me to come and speak and I'm happy to do that and I've done this another time.

So this is a lot of fun for me to talk about a company that I'm passionate about, about a brand that everybody has a lot of emotions about. So what we'll talk about today is, just real briefly, is a little bit of the history of the company and how we function today, a little bit about our industry. And really I want to focus in on the innovation side because that's really what drives our business and makes us who we are today and both in product innovation and marketing and we can talk together. I think that we'll do that for the rest of the evening. I want to save as much time to answer as many questions as I can for you. We go back into the late 1800s, two immigrants, the Goelitz brothers from Austria, and these were the very beginning days. And one of the products-- we made you see the scoop in the right hand corner it says Goelitz. It was for buttercreams and those were-- do you remember candy corn, right? We can't say for sure that we invented it. We think we did. We can't say for sure but we know we perfected it and that's the candy corn that you all know and enjoy today and that came from our very, very early beginnings.

This picture was taken back in Chicago. This machinery on the right is what was later called a mogile [ph] and the family sort of invented that type of machinery where it imprinted starch molding trays and deposited how candy in there to cool. This was our plant and it still exists today. It looks like a nicer today than that picture since 1914. This is our plant in Oakland in 1925. There were two brothers and then they sort of came back together in the late 1970s. But we go way back and there's the product shot of what we were making back then. It says Goelitz Candy Corn, reasons to crow about. So this was a gourmet product that really sustained the company, buttercreams was what we called them, sustained the company for 70 years. And it was primarily a seasonal item so we had struggled to find other things to make the company work. But we would transition from a high during the season of about 17 or 18 employees and go down to a low of just family members and a few. So we were a very, very small beginning.

Back in 1976 a distributor came to the owner of the company Herm Rowland with an idea. And he was a distributor for our products. We made other products, other confectionary items but he came to them with an idea, he said, "You, Herm, make the best jelly beans in the world. I have an idea for you to make a true-- unlike anything else, a true gourmet jelly bean and you must follow my recipe exactly. But you can do it, you can knock this out using real ingredients to make them jelly beans and we'll make them small and they'll be gourmet jelly beans and we're going to sell them for a ridiculous price of about \$4 a pound," which was unheard of at the time, right. And this was the very beginning. This was one of the first vendors that actually marketed. But the story got picked up in *People* magazine and back then and it kind of exploded on to the scene. These gourmet jelly beans were the favorite of the movie stars down in L.A.

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And of course, later our biggest fan and the one who really made the company what it is and made the brand what it is today and largely responsible is President Reagan.

This is a picture of Herm, my boss, back in 1981 or '82 and his cousin Bill on his right. And I can't quite remember the gentleman that's standing there, but one of the staff members of President Reagan at the time. And there's a story behind all of that happened. When President Reagan was elected in 1980, you remember he was the governor of California in '76 and we had run into Nancy at a cocktail party. This is how President Reagan got introduced to Jelly Belly. We ran into her at a cocktail party in Sacramento. And she came up and said, "You know, Ronald loves licorice jelly beans and I heard that you make them and you make the best ones. Can you send me some?" So we started sending the President our jelly beans. And then Jelly Belly's came on the scene and we switched him over to Jelly Belly jelly beans and he was an addict. He hid them from her in his nightstand and everywhere that they traveled. But he used them wherever he went. So he used any excuse he could to have jelly beans, but he was trying to quit smoking a pipe.

Well, when he became President they said, well you have to choose what kind of inaugural gift I want to give and he said, "I want Jelly Belly's to be the inaugural gift." And so for eight years at the White House that decanter, and every year we do a new one with his signature on it was the official gift of the White House to any official visitor at the White House. So heads of state, any visitor that was the official guest of the White House received that. That was quite a coup. So you can imagine for two inaugurations and then we would send truck load after truck load to the White House and that's where the story really began. So as you can imagine during the White House years we were the favorites of the White House photographers and the White House press corps and everyone else. So they would always position the Jelly Belly's in the shots and so you would see these things.

This is aboard Marine One as they're flying over the Statue of Liberty to rededicate that. And they had built the special holder for the Jelly Belly jar on Marine One. Absolute true story. And this is the shuttle Challenger with Sally Ride and the first-- that very historic space mission. And you may or may not remember this but PR goes a long way from the President's office, but at that time it was live satellite feed from all networks, right, from the White House with President Reagan doing the narration thanking the crew and congratulating them on this historic mission and he said, "I have a special surprise for you." And they reached behind the commander's chair and they opened up the bag of Jelly Belly's and they filled the cabin up and they were all grabbing them and eating them and stuff like this. So you cannot buy that kind of PR. It just doesn't exist. So no wonder that we were really behind. This was a picture of Herm and the articles in *People* magazine or *Money* magazine with the Jelly Belly story, the connection to the President. And it caused us to grow.

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Let me back up just a minute here when in 1980 when word got out that the jelly beans that the President really loved were Jelly Belly jelly beans that started us down this path. We were about two months behind in filling orders at the time, and keeping up and growing, but we were just a little small outfit, right. When word got out that these were the President's jelly beans in two months our orders went off the charts. We were 77 weeks behind in filling orders, still taking orders, cash in advance and had to cut it off because we had no way of fulfilling that. So you talk about creating a demand for a product. And people were buying them and reselling them at three and four times the price. It was like it created a market for it. It was nuts back then.

We outgrew our facility in Oakland and it was very much we were on an expansion role. I mean we had to meet the demand so we had to increase capacity so we opened up a plant in Fairfield. At the same time Herm and his cousin Bill, who had the family business going in Chicago-- Herm went to Bill and said, "You need to stop what you're doing and learn how to make Jelly Belly's. And I need to buy your business and bring the family back together and we need to get on the same page. We have a real opportunity at hand here." So today, this is Fairfield in 2002. We have a campus of four buildings including the visitor's center in the top left hand side there. And we have about 465,000 square feet. And this is just some shots of the-- panning operation, very much a state of the art nutraceutical grade production facility that we're very proud to show anyone in the world. These are some of the panning operations.

This is the family. Herm in the center. It was taken a few years ago but his young son Chris on the left and Lisa and Herm Jr. and his sister Becky. So the four kids, the five of them and myself make up the board of directors. So it's a family-owned business and we run things and run them. And that's a good thing. There's Herm. He's a very hands on guy. My boss. And we actually met-- to tell you how important it is for relationship building. And everyone says, "Well how did you come to Jelly Belly from Raley's?" Herm and I actually played in a golf tournament. We were paired together and we were partners in a Pro Am event and that's where we met and developed a friendship. I always was drawn to him because what you see is what you get. I mean he is all out there. He doesn't have any agenda. It is what it is. And it was so refreshing to meet somebody like that that was so honest and sincere about everything and just had a passion for what he did and so we met. And years later an opportunity was presented to me by him to come on board with Jelly Belly and run that company. And so I was at the right place at the right time.

This is our facility in Pleasant Prairie, Wisconsin, and we opened that in 2001. It's 235,000 square feet. And right now this picture came to us this week. This is in Rayong, Thailand. And I would say within the next three months we will be actually producing Jelly Belly's. We're finishing the final stages of

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construction. The equipment has landed on the job site and it will be functional and operational and we'll be making candy very soon. The Prayer Temple [ph] is in place. That's a very important thing as we all know if you travel to Bangkok. And Mr. Jelly Belly out in front of the building there welcoming. But we're getting ready to start business over there. We'll talk a little bit more about strategically the decision to go to Thailand and what we hope to accomplish. So this is a recap of all our facilities, three plants now and one warehouse distribution facility in North Chicago. We also have eight company owned retail stores. And two of them are located at our visitor centers and the rest are located in Northern California, Vacaville, Folsom, Sacramento and Salinas.

Here's a picture of a grand opening of one of our Jelly Belly stores. It's a great way to expand your brand and reach new markets and Jelly Belly has that kind of equity in a brand that we can fill a store with all kinds of merchandise and we draw a lot of people to it. So we really enjoy doing that where it makes sense. So a picture of the inside of the store, a lot of fun, a lot of activity, a lot of merchandise. Everything in the store is made by Jelly Belly. Here's a picture of our visitor's center in Fairfield. And the reason the visitor center came to be is because we used to offer free tours. We built this factory there and Herm said, "We need to let people go through the factory it's a big interest." Well, the line kept getting bigger outside the factory to come in and take the tour and bigger. And then they had to bring in restrooms. And then they had to bring in hotdog carts. And then they had to do-- it just got over the top. So finally they couldn't handle the amount of people that were coming there anymore and the idea of the visitor center came to be. So it's 35,000 square feet. It's adjacent to the factor today.

And this is our warehouse in Pleasant Prairie, Wisconsin. Now, what's unique about that is us doing a tour in a warehouse because that's what it is. And when I came on board, Herm says, "Well, we're going to put a tour in the warehouse." And I said, "You're going to put a tour in the warehouse?" "Yes, we'll get a train and we'll decorate it up and we'll hang some beans and we'll do an audio-visual presentation. We'll show them how it's done. We'll make it real fun and they'll come." I said this is in Pleasant Prairie, Wisconsin; it is in the middle of nowhere. I mean it is not even close-- it's not close to anything. So we did all of that and opening weekend we had about 50,000 people show up between Saturday and Sunday. And today a quarter of a million people come to our warehouse to take the Jelly Belly tour and we have a little retail store there. It shows you what I know. So the power of Jelly Belly and that's build it and they will come.

I'd like to just share a couple of interesting facts about Jelly Belly and where we rank. We're not a big company. We appear to be much larger than we are. We rank 54 in the world in terms of confectionary companies. Cadbury Schweppes was at 10.5 billion and we're down there some place lower than that. Real briefly, I won't bore you with a lot of statistics, it's just important to know that the total pounds of

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confections sold at retail has increased over the last five years. And the retail performance of jelly beans at some of these major channels or points of distribution or classes of trade continue to grow. Gum and candy is very powerful among all of the popular categories, third only to milk and carbonated beverages, certainly ahead of salty snacks, cereal, ice cream and cookies in that category. It's most frequently purchased, third of everything again behind carbonated beverages and milk. And interesting to know that seasonal candy represents about a quarter or 25 percent of all candies sold for the year. So that's a very important, those holidays are very important to the industry. Products purchased second only to magazines at the checkout. It's not a planned purchase. It's very much an impulse purchase and it ranks very high.

And now just a little bit more, Jelly Belly represents about 85 to 86 percent of our total business. But we also make 100 different types of confections. You know Gummy and soft confection panned items, licorice, pastels, mellow creams that we talked about, candy corn, a number of those things. So Jelly Belly is just one of 100 different kinds of candies that we make. Here are some other things, blackberries and raspberries, malt balls, Dutch mints, all kinds of gold tie top very much dedicated towards the specialty classes of trade, the retail specialty stores or the candy stores is where you'll find products like this. And Jelly Belly is the endorser brand. It used to be Goelitz or the Herman Goelitz Candy Company and Goelitz didn't mean much to a lot of people where Jelly Belly did. And so when we made the change over and used the power and strength of Jelly Belly as it translated into these other confection items. So there are 50 official flavors. And I think that's what-- there's got to be a flavor there for you, right. If it wasn't in BeanBoozled then it's someplace here. How many have a favorite flavor? What's your favorite flavor?

**W1:** Green apple.

**Robert Simpson:** Green apple. That's interesting. That says a lot about you as a person. Who's sizzling cinnamon who likes that? There you go. The wild side. All right. Anyway, there's a flavor for everybody. We sold about 40 million pounds in 2007. There are 16 billion jelly beans—at the front you mentioned 16 billion sold at Easter, that's what we make a year, about 16 billion. So about 66 million a day, 4.2 million beans an hour, 70,000 a minute is what our manufacturing capability is. So how far will that take you? Let's do some math there. You guys are all smart, right? You're all MBA students. You ought to figure this out. How far if you put these jelly beans end to end and touched them end to end how far could you go in 16 billion beans? Any idea? Could you make it to New York? Moscow? How about the around the world? How about to the moon? That's true. And I've got my little cheat notes down here. Twenty beans per foot, 105,600 beans to do a mile and then it just goes on and on. And so you could go-

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- my calculations you could go 252,384 miles on 16 billion beans put end to end and it's only 239,000 to the moon. So that's pretty good. That's a lot. It's fun.

Our sales organization-- we have four segments of sales channels that we focus on: specialty which is more of our distributor and broker network, candy stores, gift shops, department stores, all of the types of non-traditional. National is brokered sales for food, drug, mass, and convenient stores. Corporate sales focus on our key accounts like Costco, Wal-Mart, Target, Whole Foods, Trader Joe's and the Dollar stores. International is the rest of the world. And international represents about 12 percent of our total company sales right now and we'll talk a little bit more about the reason for Thailand in just a second. Of our international markets, Canada, U.K., Germany, Australia, and Korea are our top five markets followed closely and gaining ground-- China, Japan, Denmark, Taiwan and France.

This specialty business-- to give you an idea of what we call specialty and how we segment the products for the market is through packaged differentiation. And so this is all upper end and this is all highly package driven and great graphics, something that you'd find in the gourmet candy stores. And these are gold striped line with other gift items that complement those things. Again, those products are reserved specifically for the gourmet classes of trade.

National is our bonanza look. It's a very fun graphics that are designed for food, drug and mass, some other examples of some packaging that we used there and you'd find these in all of the supermarkets, the drug centers, retail stores, Wal-Mart, Costco, et cetera.

International. It takes a combination of several of those packaging types to be used for their individual markets. As you might suspect there's a lot of regulation requirements on labeling and nutritional information that we have to do adapt to the market. The distributors that we sell to are the ones that are really responsible for making sure that we are in compliance. And you can also imagine with doing import and customs clearance for all of those products that you're selling at almost 40 countries around the world, it's a big ticket job. Corporate sales, again, I mentioned Costco, Target and Wal-Mart, et cetera. That four pound jar is similar to the one that you see right there. We also do a fruit snacks item for Costco, some of you have seen it. We're redesigning it. This is the redesign of that package. Innovation.

So what drives sales? In our industry, in the candy industry it says that new products are responsible for almost a third of all of the annual confectionary sales. So if you're not coming up with new ideas and new trends and getting on the shelf with new products you're missing a huge opportunity and you're probably

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going to find yourself down at the bottom of list when the retailers are looking for items to let go of to make room for the new items. So you've got to either lead or get out of the way and we choose to lead. Jelly Belly was ranked in our industry as tied for sixth amongst the top 10 confectionary brands for perception and relevancy and I think that's important to understand to just keep your items fresh, all of the PR and the launches that we do. We all ready talked a little bit about Bertie Botts and that kind of started us down the path to some great, what I think are some great flavor things, some challenges that we had.

I have to stop and tell you the story of how we got Dirt because it's a story. Herm who loves to do tractor work, when he was a kid-- when he was working in the family business and he started at 13 and he worked alongside his grandfather's side and then his father's side. That's how he learned the business. But they went through lean times. I mean there were times when the company, the suppliers would say to Herm and the family, "When you get paid you settle up with us then," the sugar suppliers, the cornstarch and syrup suppliers. And so they owe a debt of gratitude back to all of the suppliers who used to help them get over the hump during the hard times, the seasonal times.

Anyway, Herm did tractor work because he wasn't working all of the time so he'd make a little extra bucks on the weekend by running his tractor. He loved that stuff. So he knows dirt. So when we were doing this Harry Potter thing he said, "Well you need to develop dirt." So in his mind because he is our chief innovator and flavor expert in terms of quality control. So he knows what he had in his mind. So we got Ambrose, who is our food scientist and he is extraordinary. Everybody in our company is expendable for this guy, Ambrose, because he is the guy that can make anything. He can knock off anything. And so we were talking about making dirt. So Ambrose goes and we always do this test run where he produces the initial batches and then we taste it. And we get a group panel around and we taste it and we give feedback. And nothing goes out until it's a wow. It's got to be a 10 or above. It's got to instantly you go wow that's the real thing, that's it.

So we picked up dirt and Herm picks it up first and he's tasting it and he spits it in his hand and he says, "God what is that?" And Ambrose says "Dirt." And Herm says, "No, that's not dirt. That tastes like crap." And Ambrose was insulted, he said, "Not crap. Dirt." Herm says, "That is not dirt." And he says, "Where did you get it?" He said dirt like mushrooms grow in. "Like mushrooms grow in? No, that is crap. Jesus, Ambrose." Ambrose is from Hong Kong. So you've got to be careful how you communicate with him. So Herm went out to the field and they got some adobe red dirt. He rubbed it. And he said, "Smell this. It's got to smell just like this and it's got to taste and have a little clay in it." So the next testing we got a little closer and then we got Dirt. And I mean Dirt is dirt.

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And so here's a little tribute. And you know how we combine flavors and make recipes with all of these things that we do, that's a lot of fun. So we make Grass too. So when you combine Dirt and Grass what recipe is that? What does that give you? Sod. Who said sod? There you go. Baseball season right. But our Dirt is good. And that's kind of what was the fun of Bertie Botts flavor. That's how one flavor-- I won't tell you how Booger got developed or vomit or any of those other things.

So BeanBoozled you've tried here and that's more of the fun. We pride ourselves in being able to capture the essence of any of these flavors. It has to come across. Your sensory perception, your tongue picks up sweet and sour and savory and salty, right. But sense of smell is actually more crucial to what it tastes like. If you don't believe that, then plug your nose and chew something and you won't taste anything and let go and instantly it comes across. So when we do Dirt it had to smell just like dirt. That's probably the real trade secret in how we do things because it's almost more important. Now, if you don't believe that you have this one that looks like peach and what's the other one? I've got to get my glasses out, Jesus. Vomit. So I'm going to-- that's peach. And that's vomit. That's the little trick because it does release, it does have an odor, but that's how these things are such true to life and we've had a lot of fun with BeanBoozled. Now, who got a chance to taste baby wipes? Baby wipes. The real thing?

**M1:** It's perfect.

**Robert Simpson:** Were they used or unused baby wipes? They were clean right? We insisted on that. See you're laughing. That's what it's all about. So we showed you all of those. This has been fun to do. These are the real flavors, ten popular Jelly Belly flavors: Caramel Corn, Juicy Pear, Café Latte, Peach, right, and there's the real bad ones. Skunk Spray, Pencil Shavings, Toothpaste, Rotten Egg. Rotten Egg is really, really dead on. Smell it first. It's vile. It really is that good. Black pepper and Plum. I love Plum. I think Plum is one of our really good true to life flavors and Black Pepper. You instantly get pepper. You break it and you go and you just instantly get pepper so that's fun.

Another innovation that we've come out with is who's heard of Sport Beans? As Linda and I were talking ideas come from everywhere, if you're at Jelly Belly everybody's got an idea for you because it's just that kind of brand that just kind of draws you like a magnet. So part of our challenge is what do you do with all of these things or any of them actionable when they come. We get ideas from everywhere, from our suppliers, from our vendors and our suppliers, our distributors, our brokers, our customers a big source of that. And this actually, this idea came from, I'll call it a customer, but they were a sponsorship they were our bicycle team.

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We've actually sponsoring bicycle racing since 1997. We didn't just get into because it's the thing to do now, but we got into it because we wanted to be in it back then because we love to do grass roots marketing. We love to touch as many people as we can and as many lifestyle events and opportunities and occasions as we can. That's how we built the brand and that's how we'll continue to build it. That's a perfect marketing strategy for Sport Beans is by building the brand by early adoption through that same touching and being a part of these activities where they go. Sport Beans idea came to us from the bicycle team. The riders came to us and said you know they eat Jelly Belly's all of the time. Why? It's because sugar in its purest form—just sucrose and corn syrup—is metabolized as the quickest of anything and gets into their body and replaces glucose. It's like mainlining glucose. It's that quick. And so that's the idea behind Sport Bean.

So they wanted a carbohydrate replenishment product but they didn't like the goos, they don't like the gels, they don't like that other crap out there so they would eat Jelly Belly's. They would load up with Jelly Belly's. But they said make them bigger and by the way can we do something different? So we loved that idea. Had the name picked out and so that's the story behind Sport Beans. And today some of the-- we just launched a new extreme Sport Beans with caffeine because that's, again, something that came back from the customers that wanted a little bit of kick so 25 grams of caffeine. So you have electrolytes, caffeine and sugar and vitamins. I mean it pretty much will cure anything. Help you perform. This is a true story. That, in fact, Larry has helped me do this. We've got Sport Beans in all of the major league clubhouses save a few couple of teams. Why do they have them there in the visitors and the home team clubhouses? Because the athletes know that they work and they work for them. You need to keep your glucose levels high. As soon as they start to drop off you lose your ability to concentrate and to focus and to focus and to perform at your highest. It's been a trade secret of all of the marathon runners and cyclists for years and years and years, they all know that they all get that but the general consuming public doesn't. So that's been our challenge.

The early adopters are the people, the users, that group, the professional athletes that know it and appreciate it and understand because it works for them so that was how we got started. We also decided that we're a candy company and we wanted to be credible in the world of fitness and nutrition. So how does a candy company come across-- what they say it's Jelly Beans this can't be considered serious. We decided to clinically test and we knew there were some science behind the product but we wanted to make sure that it did work as we wanted to. So we had it tested at UC Davis Medical Center. And that test resulted in affiliation with Dr. Liz Applegate, the Director of Sports Nutrition at UC Davis. And we were able to determine that our product outperformed the competitive set, the goos, the gels, and certainly better than water. Not by much in certain areas but it's the delivery part that was important. It wasn't sticky. It wasn't gooey. And it tasted good. And you got it into your system and it broke down and was proven to be very, very effective in doing what we do. The media fell in love with this whole idea of a

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candy company doing Sport Beans and so PR has been very good to us from the Reagan days. It continues to be very, very good to us and so these are some examples of that.

Fruit snacks, getting back to another thing that we've just done with Costco is we started off with this version, they loved it very much. It's a co-branded Kirkland signature item but we moved into a, I think, a more healthy, nutritious, more appealing packaging line and not so much of a juvenile line. It's the same product presented in a bigger box and utilizing the same flavor profiles. If you haven't tried these, this is a wonderful product. It's made with real fruit juice. It's not just saying that it's natural. It's made with real fruit juice. Sunkist is a product line that is our first acquisition. Normally, we've developed everything in and had organic growth in the company, this is the first time. And I was telling Linda that the reason we acquired Ben Myerson Candy Company and the Sunkist brand is family connections. The industry is filled with family stories. I mean there actually is a Forrest Mars. And there are people like this, Milton Hershey. There are people and families that have started these businesses, generations and generations ago. And Sunkist was the very first-- it's a co-op but it licensed-- this was the first license to the Ben Myerson Candy Company to make Sunkist Fruit Gems. That was the first license they extended. Today, the Sunkist brand as you know has about almost \$3 billion worth of sales, more than 55 percent come from its licensed products and not from its core fresh fruit. So to give you an idea of what you can do with a very powerful equity you have in a brand, and some other pictures of that. We've had that for a year now and it fits very nicely into our-- it's easy for us to make and distribute amongst our candy distributors. It adds a lot of value to our line. But it all got back to family relationships and what we've done. And that's how we acquired that company.

Customers come to us with requests and that's the story behind this natural product line. Whole Foods came to us and said would you make a bean with natural flavors and no artificial color. And so that's the story behind how this product came to market. It's a premium priced market. The same thing with Marks and Spencer who had no GMOs. They had a laundry list. If you can make products for Marks and Spencer you can make a product for anybody in the world because their standards are so high. And we were able to accomplish that and we're very proud of that fact. And today the product over there it's just flying off the shelves. And so again, it's a tribute to our product development and our commitment to doing what the customer expects and beyond. This product is doing very well at Whole Foods. They're going to see it roll out to all of their stores, all of their divisions across the country. Some co-branded items that have had some success. Soda Pop Shoppe. Jelly Belly is the endorser brand and then Cadbury Schweppes brands, A&W, 7-UP, Orange Crush, we're doing very well with these things because of the combination of the two have a lot of equity together. So we're seeing in product development using these things as very much a key to us. So we're combining that and seeing some success with that.

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Another example, these little Soda Pops they sell for 1.99 or \$2 on 99 cents, you can't keep them on the shelf. We've had the guy in China who was making the little bottles because that's the only place you can get them made, we just can't keep up. Smoothie Blends. Sometimes when you're making new flavors, combinations of flavors we have our recipe ideas where you can combine the two things and you get something different. Everybody gets smoothies. Everybody's been to Jamba Juice and all of the other things. Those are really, really good. And we've had a lot of success with those. We've added that as a flavor mix to some of our other mixes out on the shelf and it continues to form the top three things of what we do and that's a new item that just came to market last year. And we're always working on the next thing. So next month you'll see us launch, who knows Cold Stone Creamery? Everybody went to Cold's? What an incredible franchise that is, an idea that is, and they came to us and the power of Jelly Belly and said they wanted to give us a license so we make this thing because they wanted to use it and how to promote their brand around the world. And so we've been working very hard with it and they're great people to work with. But wait until you try those flavors, I don't have any because they're in production right now. I mean they're just dead on. We work painfully to capture those flavors and there's five flavor mixes. And we'll see that come to market next week.

So what are the other things that you do? That's all on the product side, but what do we do as a company to get behind the brand, to get behind the product? Well, I think we do that and I think we do that and we complement that very well. We're always thinking about how to touch the consumer, how to better promote the brand and everything. That's why we appear to be much larger than we are. So we do that during a number of things. So I broke it down into a direct consumer, the tours, and the visitor center, which we'll talk about, sponsorship and events-- just the whole thing of building a higher brand awareness. Did anybody want to take a stab at our unaided brand awareness in the United States? Let me just tell you that Coca-Cola is what? Is there anybody that doesn't know what Coca-Cola is? I mean 99-point-whatever right? What does it take to be a famous brand or have that status in terms of brand recognition? We're at 95 percent. So if you're unaided and you go to anybody and ask about Jelly Belly you would get 95 out of 100 would answer the question. So these are some of the things we've done. Obviously it's through 50 flavors. I mean we – nobody makes as many flavors as we do. But do you know how many real flavors there are in addition to the official 50 there's 97 that we actually make. I mean BeanBoozled. We showed you Bertie Botts. There are sours. There are a number of other things that we do seasonally that we have established and other new brands that haven't made the risk kind of the rookies that try out. And every so often we look through here and decide that let's move something out and put something else in. Pomegranate is just going like this. We just launched chocolate chocolate which is made with real chocolate and it's going off the charts. So some day they may make the official list.

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The biggest thing that I think that we do is promote ourselves directly to the consumer at the visitor center. I mentioned to you before that we do 500,000 guests each year come and take the tour in Fairfield. And this is an example of a day, a typical day in the summer time when we'll have 2,500 people come and take the tour and that's what we average every day during the summer. Now, you can imagine 2,500 people coming to your place of business and walking through your office complex, right, with a tour guide around. We have a tour corridor that's built above the facility and they go and they literally see every stage of manufacturing process all the way from the very beginning of the kitchen all the way through. So those of you have been know what I'm talking about and this is a powerful tool to be able to market your brand directly because you turn fans into ambassadors for your brand. All of those children that have come and taken the tour will never forget Jelly Belly and it always have a special place, so you get locked in at an early age and you make it a lifestyle product for them and you develop a relationship with them it's powerful. But it all gets back to grass roots marketing. And wherever you can touch people you do it.

This is our Pleasant Prairie facility where we have a warehouse. We don't even have a factory and they still come like this. We were voted the best tour in America by *Reader's Digest* magazine a couple of years ago. And that came to a complete shock to us because they just announced that you are the best tour in America. The second place was Harley Davidson, brands that you've probably never heard of Coca-Cola, Kellogg's, things like that. Little Jelly Belly, down here Jelly Belly. And we're very proud of that award. We also do a lot of sponsorships as you know, how do you get out into all of the places that you do and build an iconic brand that you have? Well, you do it in a number of ways. We have a number of sponsorships that we do. So here's some of the cycling team that you see here. There's nothing more fun to ride in the chase car. These are the hills of San Francisco in the lower right hand corner. There's nothing more fun to ride in the chase car as you're going up whatever hill that is. I think Larry was in the car that day. And we were throwing Jelly Belly's out the window going around. And nobody's watching the riders, Jelly Belly, Jelly Belly. You know the cycling people haven't learned it yet but they have teams that are called like Health Net and some other insurance company and they don't have brands like Jelly Belly. It's a very recognizable brand. So we're one of the few product lines that have leveraged that.

Sport Bean is also a sponsor of a triathlon team. These are some of the events that we do. So we go out to where they perform, where we can engage them and start a dialogue and build a relationship with them where they're at. We go to them. Other places, Reno Air Races, motorcycle races. Golf tournaments, car and coke, we sponsor on tour. Dennis Walters who is a paraplegic exhibition shot maker is unbelievable and wherever we go we just build the brand through these kinds of opportunities. We do a rodeo. We do airplanes. This is grand openings. We have an RV Jelly Belly on tour that goes to county fairs that does grand openings. We have two of them now so we can divide up the country and just go to the all of the brokers, all of the distributors, all of the retailers, they love that stuff. We always take our

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inflatables. We fly the blimp. We put out costume characters. We do whatever we can to promote the brand. And we'll wrap anything, we'll wrap your house. We'll wrap your neighborhood and we do. And all of our salesman this car—in the left hand side—drive that car. If they don't work for us they don't drive that car. That's their job is to promote the brand wherever they are. And we have so much fun with that. You have to learn to be on stage 24 hours a day. You can't be misbehaving if you know what I mean because they'll find you.

But we've been in Sydney, Australia at the Olympics. And I was just in London two weeks ago and those are real taxis that are logoed up. You should see the looks you get as you're riding around London. And you better have candy to throw out because they've all got them trained to do that. So we have a couple of different planes that we sponsor. That biplane in the right hand corner is ours. This is a guy that does exhibitions. Literally, that plane is very cool, right, it falls apart. He's one of these kinds of guys where a part falls off and he's flying like this and it looks like he's going to crash. Ken Peaches [ph] is his name. He's unbelievable. And we have a P52 Mustang that we fly up in Reno. We've got motorcycles. This Bean Machine is something that we actually gave to Herm for his birthday. We had to do something fun for him. It says, "Bad to the Bean, The Bean Machine." That's fun. So we --have fun in all we do.

Some ways that we do print advertising, using our sponsorships to promote so it connects back together I think is a powerful message. All of the Sport Beans, we talked about the clinical research. Those are our athletes that ride for us and that run for us on the triathlon team and the cycling team. And whenever we can we send the message, "Get Real, Get Jelly Belly. Get the Original Gourmet Jelly Bean. True to Life." Wherever we can send that message we focus on it. We do it in all of our promotions. Here are some examples of promotions. This is important that we do everything ourselves. We don't have a promotion agency. We don't outsource our creative. We do all of our packaging design. We do all of our creative layout, our ad work we don't outsource any of it. I have a creative services department much bigger than this room right here and I think at last count there were eight or ten people in there and they're all kept very, very busy doing things whether it's trade publications or working on packaging design or promotions, the Web, they're all busy doing it. And what's powerful about that it's probably more expensive but you have total control over that whole operation and you get the output and the throughput that you want and it's worth every dime as we far as we're concerned. If you're an innovator it really isn't an option. You've got to maintain control over all parts of the process.

Some examples of some merchandising that you see out in the field and what's impressive about this is there's so much branding going on, so much fun, so much color, it's the essence of what we do and we've had tremendous success when we've had these kinds of fixtures put in in various channels of distribution. Even from the upscale look here to some of the smaller stuff, to some of the international

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stuff. It's all fun. It's all Jelly Belly. And it all ties everything we do together. Just to give you an idea the effect the brand can have in merchandising. Don't think for a minute that at the point of sale that it doesn't do that. This is the Mr. Bulky store in Missouri. And they were averaging about 200 pounds in bulk Jelly Belly beans every two weeks. So about 100 pounds a week. So we put this fixture in and they went up to 600 pounds every two weeks. So you can see it tripled sales by building brand awareness and leveraging the equity we have in our brand. And we do other things like the bean art. We're up to 50 original pieces. We just did-- who's the movie star George Clooney? And we were down at the Hollywood, the Globe Awards, and at the Academy Awards. And they have all of the pre-Hollywood parties and stuff so his agent had asked that we do a piece for him and do that. And so we have all of these pictures, so there's his bean art. George Clooney, classy, he's got a tuxedo on and everything. And all of these women were coming by and they wanted to kiss him and so they have all of these pictures of all of these actresses kissing him. So he's a pretty popular guy. But we've done everybody from Ronald Reagan to Elvis and stuff. These don't do it justice. If you ever come to the factory you'll see the original art and we have 50 pieces and it travels all over the world. It goes to grand openings. We did the Queen in England when she had her anniversary, we did a special thing and sent it there. It got all kinds of publicity. We just love to that. It reminds people of the fun of our brand.

I think recipes is another example of something you can do with your product. Who would have thought by combining two flavors to get a third flavor and what you could do that. We own the protectable rights to this concept, okay, it's trademarked. And what we do is when you see bean plus bean equals lemon meringue pie or café mocha or candy apple, banana kiwi pudding, I mean we work so hard to capture the essence of those flavors it really works. And so we've even made promotions about recipes. But to me that just shows you the innovation that you can accomplish or you can do when you've got a fun product like ours that is really true to life.

And licensing is another extension of our brand that we do. We hired a licensing company three years ago and so we're getting-- we've got 28 licenses, I need to update this, but it's for products all over the world. It's both for consumables and non-consumables. You'll see things like Bundt cakes, drink mixes, dessert sauces, all kinds, candy canes, things like that. Consumer products, games, perfume pillows, puzzles. I mean all of those kinds of little things that you'll see and they're appearing on the shelves right now. So it's our third year and it's growing. We have tremendous interest in anything that's Jelly Belly. It has such a big appeal and it just amazes me. It's amazing to see. It just shows you that the power of our brand and the equity we have in our brand and how it translates into other product lines. So now we have 14 categories of products registered in almost 60 countries right now so we've made the attorneys very happy.

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You know, I think in conclusion I want to say just a couple of things as how do we do what we do. I think that we live by certain rules. The thing that we've always said is our brand, that's our insurance policy, that means everything to us at Jelly Belly and we understand it. It's what pays the rent. It does everything. And so it's our promise to the consumer that it's consistently good the same time every time. We won't let anything out the door. We'll never compromise quality, we'll never take any short cuts. Do the right thing, do things right, I mean it's been our mantra. I mean we don't look for a way to do it differently than that way. It's our style of doing business. It's relationships we have with our vendors it's just who we are. And if you're not going to do it the right way don't do it at all. There's only one way to do it. And so we all get that it's something that we've learned over time. It's part of our culture. We are obsessed with perfection. We'll do 98 things right, perfect, but we'll only focus on the two things that we can do better constantly is our gauge and setting a bar for that perfect promotion. We are our own worst critic. We'll pick everything apart and we'll decide what could we have done better.

And so I think that's another thing that's part of our culture. We're very inclusive. It's a collaborative effort. I said that everyone is a salesman, everyone is a marketer. Nobody wants to figure out what they do over in IT because they can't but everybody can figure out how to sell and market Jelly Belly right? That works in the company so it's very inclusive. I think that the best things that when we look for people to hire and bring on board we want somebody that's going to contribute to us. Somebody that's not going to look to take credit or place blame. Somebody that doesn't have a personal agenda, somebody that wants to contribute to the success and be a part of the team. So we tell them to leave their scrapbook at home because they won't find a place that's comfortable-- be a comfortable fit for them at Jelly Belly.

So the last thing we did is create for our new employees was a way to adapt culture of Jelly Belly. And so we send them Jelly Belly University. So everybody that we hire has to go out to the factory and spend two weeks and they learn and they actually do the work, learn how to make Jelly Belly. And they get it and they understand it and they understand what we do and why we do things the way that we do. And I think that that's been a huge successful program. We won't compromise that. And we're even talking about a graduate school at Jelly Belly University where they learn more about marketing than salesmanship and things like that. We've got to develop that. So anyway that's what I have and hopefully I enlightened a little bit about what we have done at Jelly Belly and we'll do some question-and-answer stuff. All right, thank you.

#### End ####