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LITTLE-GUY ECONOMY

## The Yogurt Chronicles

Siggi's builds a niche market from an ancient Icelandic recipe.

By Jill Priluck

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In late 2004, Icelandic native Siggi Hilmarsson was a miserable Deloitte consultant working in Manhattan. Craving the comforts of home during his first Christmas away, he made skyr, Iceland's yogurt, in his Tribeca kitchen.

More than five years later, Hilmarsson's [Icelandic Milk & Skyr Corp.](#) supplies Whole Foods, Wegman's, and Stop & Shop and boasts nine employees plus about 350 cows from six family farms. In July, private equity firm Revelry Brands acquired a minority stake in the company.

While most upstarts struggle to find customers, funding, and revenue, Hilmarsson stumbled onto all three almost seamlessly. It's a rare little-guy economy tale in a [\\$4.1 billion yogurt market](#) with dozens of brands that tout so-called benefits ranging from "lite" to "fat-free." Perhaps most repellent is Dannon's Activia, which, known for its [\\$100 million ad campaign](#) featuring Jamie Lee Curtis, supposedly "helps regulate your digestive system." But the counterintuitive rise of the skyr company, which as of March took in an estimated \$560,000 in annual sales, shows that a pricey, understated new product can grab market share, albeit a relatively small one, in a crowded, consumer-driven field. In the age of corn-syrup-infused foods, shoppers simply wanted this pared-down, no-frills yogurt.

The high demand begins and ends, of course, with Hilmarsson, who, like a conductor, orchestrated the arrival of siggi's, the company's premium yogurt. A Columbia Business School graduate, he consulted articles from Iceland and food science textbooks and became a skyr scholar overnight. Skyr is a thousand-year-old Scandinavian staple, a thick, strained, high-protein yogurt. He first made skyr the old-fashioned way: by boiling the milk, keeping the pot warm at about 100-110 degrees, adding the cultures, incubating it, and then straining it. "Some of the first batches were awful," said Hilmarsson, a lanky, 6-foot-5 fellow with shoulder-length hair and a beard, in his 11<sup>th</sup> floor office on 26<sup>th</sup> Street. On vacation, he went upstate to a test dairy facility at Morrisville State College and perfected his skyr. In startup-speak, he had a minimum viable product.

Success is never preordained in the little-guy economy, and it certainly wasn't in Hilmarsson's case. But after his friend Liz Thorpe, the cheese expert and Murray's vice president, casually planted the yogurt before the specialty store's buying committee, which wanted to stock it right away, Hilmarsson knew he was onto something. He turned to Columbia Business School professor Michael van Biema—who offered less than \$50,000 in seed capital—quit his job, and began searching for a dairy plant in upstate New York.

The product couldn't be stopped. siggi's sold out the first day it appeared at Murray's. Even more remarkable, the next morning, when the siggi's truck arrived late, several people were waiting for their skyr. Hilmarsson had found a tiny family farm in Norwich, N.Y., with an underused plant that had been producing cheese, yogurt, and goat's milk for several years. By then, the summer of 2005, he was producing 200 cups of yogurt a week. But, step by step over the next few years, more and more people wanted siggi's, and soon Hilmarsson was selling yogurt to Dean & DeLuca and Bouley Bakery.

It was a feat. In less than one year, Hilmarsson negotiated New York state agricultural laws, found a milk supply that met his criteria, learned what equipment was needed to make skyr, figured out where to buy it, and got funding. "You wouldn't believe how many people call me and say, 'I want to open a cheese shop' and don't know anything and haven't done any research," wrote Thorpe in an e-mail.

And, in just two years, Hilmarsson would have a problem many founders wish for: too much demand. In a ["free is the future of business"](#) twist, Hilmarsson donated his yogurt to a Hamptons retreat, where a Whole Foods employee fell in

love with it. A few weeks later, Hilmarsson was in Austin, Texas, presenting his skyr to Whole Foods. Hilmarsson would supply half the country's Whole Foods with five flavors of yogurt, beginning in January of 2008. Unprepared, he shut down and expanded his plant so he could accommodate a jump of about 15 stores to about 100. The main problem was that he couldn't cool the product fast enough in large quantities.

Aside from the product's popularity, unlike the [failed Social Bomb app](#) and numerous other startups, Hilmarsson hasn't had too many bad surprises, unless you count his failed honey raisin experiment—the raisins in the yogurt expanded and became too grapelike. He also had to stop producing pear mint because the pears had a short shelf. And at first he was startled by the direct American way of doing business, such as single line e-mails involving multimillion-dollar deals and the lack of emotion involved. "They really push, and they don't hold it against you if you push back," he said.

Ultimately, the many devotees of siggi's directly benefit from Hilmarsson's obsession with sugar. siggi's pomegranate and passion fruit yogurt, for example, has 11 grams of sugar, sweetened with agave, which, while high in fructose, is a low-glycemic sweetener. Yogurt is often deemed healthy but can contain up to 35 grams of sugar per serving—akin to a candy bar. And aside from the nostalgia for his homeland, it's this aspect of American life that compelled Hilmarsson to create the yogurt in the first place. He had an epiphany when he found a loaf of whole wheat bread that looked fantastic but didn't taste right. When he looked at the ingredients, he couldn't believe the amount of sugar per serving. "Americans went bananas in the '80s and took the fat out of everything, but that's not palatable, so they just added sugar," he said.

Having a loyal, health-conscious fan base is one thing, but it won't solve issues involving scale. The skyr company is still in the low-to-middle range of food startups, and Hilmarsson won't reveal financial details, such as profit margins. But one of the company's biggest challenges going forward will be managing the supply chain. "The cost of distributing a refrigerated product is very expensive and compromises profit margin," said Adam Borden, managing director of Bradmer Foods, a venture capital firm that focuses on specialty food businesses.

Hilmarsson's real hurdle is to grow without compromising his values—and his ingredients. There are many examples of small companies with ethics-minded brands that, when positioned for the mass market, lose the authenticity that attracted customers in the first place. Ben & Jerry's, now part of a Unilever, is the classic example. But there are others like Green & Black's chocolate, now owned by Cadbury, a subsidiary of Kraft, that stay true to their roots. Earlier this year, Green & Black's [pledged](#) that all its products would obtain Fairtrade certification by the end of 2011.

siggi's albatross is its price, which is \$2.69 for a 6-ounce cup at Whole Foods. While skeptics question whether that will play beyond the confines of upscale urban life, so far it hasn't stopped him. It's unlikely growing pains will, either.

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