

Meet Google's Willy Wonka

Charles Siegel, founder of Charles Chocolates, is taking on candy giants Hershey and Nestle with a one-of-a-kind premium chocolate experience.

By **Matthew Boyle**, writer

(Fortune) -- Good thing Google has an on-site dentist. One of the sweetest perks - literally - enjoyed by employees at the company's Mountain View, Calif. headquarters is the unlimited supply of bite-sized chocolates found in its well-stocked cafeterias.

The candies are a small piece of the cornucopia of free food the Internet goliath dishes out to employees around the clock. But for Chuck Siegel, Google's official Chocolatier and founder of Charles Chocolates, they are his first-class ticket into the increasingly competitive world of premium chocolate.

Since Charles Chocolates was founded in 2004 in the San Francisco suburb of Emeryville, sales have soared, with revenues on track to double to more than \$3 million in 2008. That growth rate far outpaces that of the premium sector, which grew 29% in 2007, according to AC Nielsen. The overall packaged chocolate market, meanwhile, grew 4.2%.

Americans, it seems, now demand the finest chocolate to go with their new Coach hand-bags and Prada cell phones. "There's been a departure from sweet milk chocolate products," says Bernie Pacyniak, editor-in-chief of Candy Industry magazine. "People are looking for something more refined and sophisticated."

And the high-end chocolate sector is more immune to recessionary fears than other premium consumer products, say analysts. "It's still a relatively cheap indulgence, so we're not expecting sales trends to be hugely impacted," says Morningstar senior equity analyst Mitchell Corwin.

Candy giants like Hershey and Nestle want a piece of the dessert. In recent years, Hershey (**HSY**, **Fortune 500**), whose 2007 sales were flat, has acquired high-end chocolate purveyors Scharffen Berger and Joseph Schmidt and is now making a huge bet on Bliss, a premium chocolate line, and a new chocolate product made in conjunction with Starbucks (**SBUX**, **Fortune 500**). Nestle, meanwhile, has launched a new premium line of higher cacao content chocolates dubbed Nestle Treasures Gold. And Cadbury Schweppes (**CSG**) is looking to expand distribution of organic chocolate maker Green & Black, which it bought in 2005, to more mainstream retailers.

The crush of new products compete for shelf space with established premium names like Lindt and Ghirardelli. "It's gotten a lot more crowded," says Morningstar's Corwin.

Siegel isn't worried. "The products we do are so different from anything out there, so it's easy to get attention and shelf space [from retailers]," he says. About 70% of his sales go to retailers like Whole Foods ([WFMI](#), [Fortune 500](#)), which features Charles Chocolates in about two-thirds of its stores and should expand that to the entire 265-store chain by the end of this year. Overall, more than 1,000 stores carry Charles Chocolates.

Several factors distinguish Charles Chocolates from its competition. There are only about two dozen chocolatiers in the US who follow the rigorous standards that Siegel subscribes to, which includes paying anywhere from \$4 to \$7 per pound for raw chocolate, which is triple the price of commodity chocolate. The difference is found in the quality of the cacao beans - Siegel uses chocolate that is predominantly made from Criollo beans grown in Venezuela, which are considered some of the finest in the world.

"With chocolate made from lesser beans, the difference is remarkable," Siegel says. Competitors "say [their chocolate] is 'premium,' but it's completely machine made. It's designed to sit on the shelf for a month. Those products just aren't as good."

Siegel also offers an unforgettable retail experience. His store features a 60-foot long "chocolate bar" where customers can sit and watch chocolates being made right before their eyes in a new 8,000 square foot factory kitchen, which cost \$1 million to build.

A closer look at Siegel's top-selling product shows an attention to detail that the industry giants just can't match. Take Charles' triple chocolate almonds, which are roasted much longer than mass-produced chocolate almonds, allowing the flavor of the almonds to come out. (Big chocolate producers abbreviate the roasting period for fear of burning an entire batch.) Rather than coat the almonds with just milk chocolate, Siegel uses a mix of milk chocolate and bittersweet.

Finally, he dusts them with all-natural cacao powder imported from France, rather than the lower-grade powder that others use.

All this doesn't come cheap: A 6.5-ounce tin of the almonds sells for \$12. But it has created quite a following. "I love everything about this company, from the inspired flavor combinations to the pretty packaging," says Tish Boyle, editor-in-chief of *Chocolatier* magazine.

Siegel's career as one of the nation's leading makers of high-end chocolate began on a lark, by teaching himself to make truffles for a girl he liked in college in the early 1980s. He started his first company, Attivo Confections, at the age of 25. After falling out with his business partner in 1994, Siegel rode the dot.com boom and served as a consultant to other chocolate makers on the side. In 2004, he launched Charles Chocolates.

While sales have taken off, plenty of challenges loom. Raw ingredient prices are soaring; dairy costs alone have risen 50% in the last year. Because Siegel insists on buying all his cream and butter from one organic dairy, he can't shop around for cheaper vendors.

Luckily for Siegel, he's been able to hammer out volume discounts from other vendors, so his overall product costs have remained flat. From talking to Siegel, though, it's clear that it's not

just about profits. "We've elevated the understanding of good chocolate," he says. And now, Chuck gets to play Willy Wonka for the Google guys. Talk about a sweet gig. ■

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