

Growth In Stages

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Michael Powell of Powell's Sweet Shoppe in Windsor, Wednesday June 11, 2008

As a kid, Michael Powell liked nothing better than a trip to the corner candy store. So when he was looking to start a business in Windsor's new downtown in 2003, Powell thought about re-creating that childhood experience. He'd offer penny candies, handmade chocolates and ice cream in a nostalgic setting.

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Sonoma County is home to more of these companies than most other areas, according to a new study. Second-stage businesses provide 38 percent of U.S. jobs and 40 percent of California jobs, but they generate 44 percent of the jobs in Sonoma County, the survey said. Second-stage businesses are key to economic expansion, said Mark Lange, executive director of the Michigan-based Edward Lowe Foundation, which published the study. "They're the ones really driving the economy," Lange said. "We don't recognize them for their contributions."

Such businesses have 10 to 99 employees and generate \$1 million to \$50 million in annual sales, according to the Lowe Foundation, which was started by Kitty Litter inventor Ed Lowe. The private foundation provides support for entrepreneurs. Second-stage companies have proven products, basic corporate structures and standard operating systems, Lange said. They're primed for growth, but they face unique challenges. Proprietors must learn how to delegate authority and plan for the future while monitoring day-to-day operations, Lange said.

The survey, based on yearly data from 33 million U.S. businesses, is designed to help policymakers tailor economic development programs to local needs. Instead of trying to lure companies from outside their area, communities might gain more jobs by helping their second-stage businesses expand, Lange said.

A 'homegrown' economy

Sonoma County has a high percentage of locally-based businesses, the survey found. While 63 percent of U.S. jobs are in such companies, 76 percent of Sonoma County's jobs are in businesses headquartered here.

Sonoma County also has a higher percentage of startups, according to the survey. About 31 percent of U.S. jobs are in newly formed businesses with fewer than 10 employees. In Sonoma County, 38 percent of jobs are in such startups. "You have a homegrown kind of economy," Lange said.

The county is more hospitable to early stage companies because its economic development is fairly recent, said Ben Stone, director Sonoma County's Economic Development Commission. "We're like our own little island here," Stone said. "You can start small and grow easily." The county also attracts entrepreneurs because of its quality of life, he said.

Supporting local programs

Homegrown businesses are a boon to the community because they support local programs, Stone said. "They're invested in the area because they live here," he said.

The county has more than 20,000 businesses, with 85 percent having 15 or fewer employees, according to the Economic Development Board. Second-stage companies have proven they can survive, Stone said. "They are the ones that stay here and add stability," he said. Powell's Sweet Shoppe has 16 employees, including 11 at its Windsor store and five at its franchise business, also based in Windsor. Powell franchised his first store in Healdsburg in 2006.

Today, 13 of the 14 Powell's Sweet Shoppes are owned by franchisees, who pay him a royalty for the Powell's name and business model. They also buy candy at a 10 percent discount and get other services, including training at Powell's flagship Windsor store. The franchise business took off in 2007 and started turning a profit this year, he said. Powell's doesn't release annual sales for the company-owned Windsor store or the franchise unit.

The candy store franchises are popular with people who want to work for themselves, Powell said. "They make the majority of the decisions," he said. "They're leasing a proven system." The business should continue to grow, he said. "We're so new to the franchise world. We really don't know where it's going to go," Powell said. "But candy's pretty recession-proof."

Dilithium's growth

Powell's isn't the only example of a growing second-stage business. Petaluma's Dilithium Networks is riding a wave of demand for technology that delivers video over wireless and broadband networks. The 7-year-old venture-funded company makes software applications and equipment for network operators and content providers. Most of its customers are in Europe and Asia, where wireless video services are more advanced than in the United States. But the U.S. market is growing because of the iPhone, Wi-Fi, WiMAX, 3G mobile and other next-generation services, said Mitch Lewis, Dilithium's marketing director.

Last month, Dilithium introduced a digital "content adapter" that lets service providers easily deliver interactive two-way multimedia content, including videos, to cell phones, laptops, PCs and other devices. The adapter, targeted for the U.S. market, quickly converts content in different digital formats for easy delivery, according to Dilithium. "Our product allows the content to be pre-coded, cached and available on demand," he said.

Dilithium has 75 employees at its Petaluma headquarters and another 75 at locations outside the United States. The privately held company doesn't release sales but said its technology is now being used by 800 million subscribers in 50 countries. The growing business is looking to fill engineering, operations and finance positions in Petaluma, Lewis said.

While large technology companies may generate headlines, small businesses like Dilithium are on the cutting edge, said Steve Cochrane, an economist at Moody's Economy.com who tracks Sonoma County business trends. "Innovation often comes from smaller companies," Cochrane said. "They're run by entrepreneurs who have ideas. They're often a little more nimble and flexible in what they can do."

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