

Wickless and waxless, candles light up sales charts

Dick Youngblood, Star Tribune

Josh Kutzler and Shane Vail came up with a rather unusual approach to finding cash for the company they hoped to start someday: They started another company.

Working evenings and weekends, they built fences and decks, assembled display racks for customers of a Norwegian silverware manufacturer and quickly grew the company to \$70,000 in annual revenue before they figured out exactly what business they really wanted to pursue.

Then they built the new business in one year to sales of nearly \$1 million -- more, in fact, if you count orders that went unfilled because demand outpaced production.

Kutzler and Vail, both 34, are the proprietors of Smart Candle, the North American distributor of an uncommon product: an electronic candle that mimics with startling accuracy the flickering of a conventional candle, but with no heat or open flame -- and at lower cost.

The LED (light-emitting diode) product is available in both battery-operated and rechargeable models and is indistinguishable from a conventional candle when dropped into a frosted votive holder.

Developed by Excel Consumer Products Ltd., a British firm that licensed Kutzler and Vail as its distributors late in 2004, the Smart Candle employs a built-in microchip to replicate the natural flickering of candlelight. Kutzler said this sets the product apart from competing LED candle products, which merely "flash on and off or don't flash at all."

You don't have to take his word for it. The marketplace appears to agree.

Smart Candle's sales totaled just \$60,000 in the first four months after the company began selling in January 2005, largely because its network of sales reps was not fully on board until April. In the ensuing eight months, the company shipped more than \$800,000 worth of product, ending 2005 with sales of \$870,000.

It could have been more: "We ended the year with \$250,000 in orders we couldn't fill" because the British company's manufacturer in China couldn't keep up, Vail said.

The Smart Candle came to their attention in 2004, when they were working for a Chaska importer of gift products, Vail as sales director and Kutzler as chief financial officer. Their employer began importing the LED product, but because it was but one of thousands of gift items, there was little promotion and minimal sales, Kutzler said.

In short, here was their opportunity, which they pursued in lickety-split fashion: The same day they decided to explore the Smart Candle potential, they secured the website name for their then-nonexistent company (www.smartcandle.com). Then they spent three months shaping a strategy for securing the distribution rights to the product before arranging a meeting with Excel executives.

On a weekend trip to London in September 2004, it took them just six hours to win a distribution agreement.

That left just one question: Why would the British company entrust such a prize

assignment to a couple of nobodies with no track record and minimal financial backing?

"Because we showed up with a kick-ass marketing plan," Kutzler said, including a logo, packaging designs and sales materials. And it didn't hurt that during 10 years at the Chaska import company, they had developed a passel of contacts with sales reps in the gift industry, their initial target.

With savings, home-equity loans and proceeds from Structural Integrity, their part-time construction and assembly business, they came up with \$100,000 to get started. Later, a \$180,000 SBA loan and a \$70,000 bank loan helped them build inventory.

Vail quit his job and spent the next six months crisscrossing the country signing sales reps he knew from the gift business. It wasn't a hard sell, he said.

"I'd walk in with some product, turn on the candles and shut off the lights," Vail said. "And they'd say, 'Where do I sign?' " Vail and Kutzler also took the product to several hospitality industry shows, where restaurant and nightclub operators were drawn by the safety and lower cost of the LED product.

The product line includes small, battery-operated "tea lights" for votive holders, which sell for \$3.99 each, \$4.99 to \$19.99 for multiple gift sets. There are rechargeable candles in a variety of gift sets that include votive holders and charging bases. They retail for \$39.99 for a set of two, \$69.99 for four and \$245 for a commercial 12-pack favored by hospitality clients.

Within six months, the company had upward of 125 sales reps signed, and by the end of its first year there were more than 900 retail and hospitality customers, said Vail, one of three full-time employees. Kutzler has continued working full time outside the company -- he's now controller of a Bloomington medical financial services firm -- laboring in his off hours to manage Smart Candle's billing, payables and banking relationships.

There's been only one serious problem: supply. With Excel also pursuing overseas markets, its Chinese manufacturer has had trouble keeping up with orders. But the supplier recently doubled its capacity, which Vail and Kutzler figure will give them room to more than double their sales in 2006.

One reason for their optimism: Recently added to their client list of generally small retailers and hospitality operations were the bulky likes of Walgreens, Target.com and Canada's Indigo department store chain.

You might call it a light flickering at the end of the tunnel.

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