

**MIKE KITTREDGE TALK**  
**"HOW I BUILT YANKEE CANDLE"**  
**APRIL 13, 2009 @ UMASS ISENBERG SCHOOL**

Thank you for having me here tonight. Before I go any farther, I have a question. How many have been to Yankee Candle before? Can I have a show of hands? Good, OK then, it seems that you've virtually all seen it, so I can cut right to the most important portion of my talk.

Most people ask me, "Why did you make the first candle?" but the REAL question should be why did you make the THIRD candle? I made the first for my Mom, the second to replace the one I sold so I'd have a gift for my Mom but the third, basically to meet girls.

(hold for laughs)

No seriously! I had noticed that whenever I walked into any of the crafty/hippie-type shops in Amherst or Northampton there always were lots of young women there. I figured that maybe if I could sell my candles to gift shops and maybe I might even meet a few women in the process.

Now, of course, it's key to realize that I never expected Yankee Candle to grow to 2500 employees, \$200+ million in annual sales, or 400+ stores. Early on, I figured it could be a nice craft business that I could run out of the house and make a few dollars after my rock band broke up.

The reason I'm not still working at YCC is simple. I discovered after recovering from cancer in the early 1990's that my son would probably not be able to inherit the company if I'd have died. There was no way it could ever be the modest "family business" I'd once envisioned. My son Mick was only 6 or 7 years old when I learned this. So I began to seriously listen to the suitors and their offers of a purchase. In 1998 the offer finally reached the number I'd long imagined - \$500 million.

Now that all sounds great, but remember there was a tremendous struggle to get to that point.

First, I need to take you back to roughly 1972. I'd been a one-man candle-making show for three or four years already, and I had wax and candles spread all over my parents' house. I was going to college, at UMass and also HCC, when I finally had an advisor say, "Why don't you take a semester off and see how it goes with this candle business?"

It was also about that same time that my folks finally invited me to remove my growing little business from their home.

(hold for laughs)

I couldn't blame them; I had wax, molds and candles everywhere – stuff was in the cellar, garage, shed and even our hallway. By great luck I found a space in a former chrome plating shop in Holyoke, listed at \$88/month in the newspaper ad.

I remember the first place the landlord walked me through looked nearly as nice as this classroom. I was instantly excited and said, "I'll TAKE it!" Then the landlord said, "Well this isn't it." We walked through a few more doors and finally he opened this last huge dungeon-like doorway. It was black inside and the calendar on the wall read 1945.

(hold for laughs)

About this time I also joined YPO – the Young Presidents' Organization - and learned to my horror that 75% of startup businesses typically fail in their first year. But I didn't have a lot of career options at that point, and I really felt I could make it work, so I just stayed with it.

There were some major turning points in the Holyoke Era, which I define as 1972-1982. One of the biggest was printing a color sales sheet. Most of the struggling candle companies I was competing with were using black and white sales materials, and I figured I should roll the dice on one big shot. It instantly made Yankee Candle look bigger and more credible.

When I discovered the concept of wholesale gift reps. I'd had no idea that there were experienced giftware salespeople who were essentially hired guns. They would take your product, bring it to their network of stores, and take a commission on any sales they made. I started using them, and my sales jumped from \$22k to \$125k in just one year.

That sounds great, but I was the only employee, so I still had to make that entire amount of product. I started hiring people I knew, like my friend Chet the Drummer. He was a night owl and almost every morning I'd have to call him around 10 am to wake him up to come in to work. He'd say, "Well I figured I was so late that I was fired, Chief." And I'd say, "NO! Get your tail in here and help me make candles for God's sake!"

(hold for laughs)

I slowly built up a team of people who were willing to do this messy work. The bigger we got, the more applicants would actually come in to try it out. And a lot left after their first day and never came back.

(hold for laughs)

Sales kept jumping up every year and by 1982 I'd hit the \$1 million mark. That's when the bankers started calling me for a change. Through the Small Business Administration I was qualified for a loan of \$1 million and now I could finally build the store and factory in the countryside I'd long dreamed about.

After a lot of looking around, I found a nice parcel of land in Deerfield that was highly-visible right between two exits off I-91. The bankers were advising me to go into the nearby Deerfield Industrial Park but there would have been zero opportunity for retailing our products there and in my gut, I knew that's where the real profits were.

I was convinced we could make it an entertaining place for people to come, buy candles and just enjoy a few hours away from the stress of the city, but we'd have to be visible for all that to happen.

I think I'm naturally an entertainer and I'm highly influenced by the world of entertainment. My wife buys *People* and *Us* and all those other magazines so I regularly pick them up to stay current who's doing what with whom and the key takeaway for me is that our population craves entertainment.

I honestly believe that we could have done the same thing with wine, honey, and cheese, whatever. It didn't have to be candles. What was important was that we offered a quality product in a super-clean and entertaining setting with an excellent customer-service ethic. If you put those things together I truly believe you will succeed in almost any economic environment.

One of the ways we stayed fresh and interesting was via my frequent travel. I got the idea for the Bavarian Village while inspecting candle-making machinery in Germany. I saw lots of other good ideas for packaging, signage, building design and so forth in Europe as well. My advice to you in this regard is that when you finally get into business yourselves don't rip off the guys you see around you locally. Find a unique approach. Go abroad, go far away, see things there and rip THEM off. It will work out better for you.

(hold for laughs)

OK – nobody likes ripoffs. But you can't help being inspired, right?

(hold for laughs)

We always observed the Golden Rule in our retailing, in other words, “Do Unto Others...” I recall going into a little store in Manchester Vermont with my wife. It was mid-winter and cold, so naturally we were wearing heavy coats. Well the shop lady was this delicate woman in her 70's, a rather frail sort and she's wearing a little thin shirt with pearls and she has the heat cranked up to almost 80. (hold for laughs) Sure, she's comfortable all day but the coat-wearing customers are driven out by the temperature. Also – the store was deadly quiet – no music. You had to whisper, feeling that anything you said would be overheard. It was not a comfortable retailing environment. We left and didn't buy anything.

I didn't want this happening at Yankee so we started to pay close attention to the store temperature. In the winter we kept it very cool in the store and issued sweatshirts to the store clerks. They were warm and the customers didn't perspire in their jackets. We

actually tried offering a coat check service for a while but with thousands of people coming through each day it just wasn't feasible.

Another thing we did right was to monitor the aural environment. We tried to play what I called "move you" music. In the Deerfield store we had this CD called "Honky Tonk Piano" – it was a little bit hokey, old-fashioned stuff but it was fun music that almost everyone liked. I literally saw people dancing in the store on a daily basis.

So the message in that is simple. The business world is full of good examples and bad examples. Do the good things. Do the things you like. Don't do the bad things. If you concentrate on creating a place that is clean, safe, happy, fun and so forth, people will talk about it and come back with other people. Essentially, that was Walt Disney's approach too. And it kind of worked out for him.

(hold for laughs)

Another way we succeeded at YCC was keeping our employees happy. We had a reasonably competitive pay rate for our help but there was more than that. Everyone had their own business cards, a cool thing. We held informational company-wide breakfasts every quarter. I'd keep everyone posted on expansion plans, new products, decisions we were making and so forth. The whole staff felt they were involved, a part of the bigger program, and they were.

Just an aside here – my son is 18 now and he just ran a successful Mixed Martial Arts event in Holyoke that attracted 800 people. He stood up at the beginning and did a very interesting and entertaining talk and he had everyone listening. When I was 18 I couldn't do that, I didn't have the confidence. I do now, but he's already got it. Maybe he picked up some of that gumption watching me when he was little, or maybe it's semi-genetic, or both.

(hold for laughs)

It seems odd but the biggest challenge we faced in the 90's at YCC was controlling growth. We had to take some bold steps to slow down the expansion, because while we were selling more products every year, it was costing more and more to front that expense. And it was all on me.

We initially decided to shut down the Boston wholesale showroom, and let the wholesale accounts deal directly with us. A showroom is a place where gift shop owners would come to see what wares were new and exciting. The sales reps would tour around with them and write up the orders. Now this may sound like a foolish move but trust me the reps were not always working that hard to get the orders. I can still remember the guy showing a customer the fragrance of the candle. He's holding the jar out to her with a burning, stinky cigar in the same hand!

(hold for laughs)

I lost some faith in the reps when I saw that.

Now by eliminating the reps, our expectation was that orders would fall off slightly. This was OK in our thinking because we'd also not be paying the 15% commission to the reps; we figured it would be a wash. But the unexpected can always happen, and what actually occurred was we saw a more than 35% JUMP in sales. We then shut down the national network of showrooms and bypassed those reps too. But again, the sales jumped by double-digits and more.

We tried to figure it out and what we realized was that the wholesale accounts – the gift shop owners – were actually happier dealing directly with us and not through an intermediary like the sale rep groups.

My analogy is this: if you could buy your Rolex watch through a jeweler, OR you could call Hans, the actual watchmaker in Switzerland who makes it directly and pay the same price, what would you do? I know I'd call Hans.

(hold for laughs)

So did the wholesale account people we dealt with – they liked calling the “Hans” at Yankee Candle. They felt they were getting better service – and they were. And that's what we weren't ready for.

Well, we managed to deal with the increase in sales, but it was all becoming too much. And as I mentioned earlier there was the whole issue of my son not being able to inherit the company for tax reasons, so I started listening more seriously to the suitors.

Now that said, I know the numbers are down pretty significantly at Yankee Candle right now. If they'd simply kept going on the trajectory we'd left them with they'd be doing about \$50 million in that store alone, but I know they're closer to \$14 million. So purely in my opinion, I have to grade them a D for effort so far.

It's what I call the New York Syndrome. They took away a lot of the magic; that's the bottom line. Too many suits, too many analysts and consultants and bang – they'd stripped away a big part of the organic charm that had made Yankee Candle so charming for so many years.

So anyway – the sale of YCC was finally negotiated and the day of the closing came in late April 1998. We drove down to New York for that. There was a huge table set up with papers all around the edge. I had to walk around signing and signing everything.

After that was over, I wanted to get some fresh air. I was outside on the sidewalk and my cell phone rang. It was the accounting department of Forstmann Little – the guy said, “Mr. Kittredge, we have three checks for you totaling \$483 million. Would that be OK? I said, sure. And then I had to borrow a dollar from someone to get some gum. I had just

deposited almost \$500 million in the bank and not a penny on me. Later on we bought some champagne and I also treated myself to a couple of new guitars and that's what you do with \$500 million burning a hole in your pocket.

(hold for laughs)

A couple of years after that the Forstmann team took YCC public, and raised about \$900 million, so they got their money back and more. They kept me around for a short while – mostly on paper – with a gift of stock. I have a theory that the current owners – who took it back to a private company by the way – may take it public again when the economic environment improves. It'll be interesting to watch that.

Now I stand before you as a retired businessman. Creating Yankee Candle was an incredibly intense experience, and it taught me so much about business, and myself. I hope that some of this story may prove useful to you in your own professional lives.

And I hope that the autobiography I've been working on will be wrapped up soon, because we'll have a lot more stories and experiences in that book than I could ever offer a speech like this.

You have been so engaged and wonderfully attentive. I am very grateful that I had the chance to share a brief history of Yankee Candle with you.

Thank you!

And now, if anyone has any questions, I believe we have a few minutes of time for that.