

Grayway

A WINNING RECIPE

CHELTEN HOUSE'S RECIPE
FOR SUCCESS IN A NICHE
FOOD MARKET



THIS ISSUE / A Winning Recipe



Stephen Gray
Chief Executive Officer

On the Cover:

Chelten House produces organic pasta sauce and other organic salsa and salad dressings at its new manufacturing plant in Las Vegas, Nev.

How to feed 330 million Americans every day?

In 19th-century America, up to 70 percent of the workforce was, in some way, working in the production of food. Our population at that time ranged from 5 million in 1800 to 70 million in 1900. Today, all forms of food production—from farm to table—account for less than 10 percent of our workforce, and our population is at 330 million. What accounts for this amazing shift in numbers—a smaller workforce feeding a much larger population?

The introduction of the standard farm tractor and other improvements in mechanization, along with advances in seed production, have created huge gains in efficiency, increasing crop outputs exponentially. What's also growing is consumer demand to be very involved in where and how food is produced. This is the essence of the organic food movement and it's the fastest growing part of the food industry. We'll discuss the growth of this industry in this *GrayWay*.

We're also going to take a look at one of our customers—[Chelten House](#). They're just an amazing American success story. They're in the food business, they're a fourth-generation family business, and we're delighted to tell their story.

A handwritten signature in white ink, appearing to read 'Stephen Gray'.



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Lexington, Ky.

FOUR GENERATIONS OF FOOD



**CHELTEM HOUSE
PRODUCTS OWNER
AND PRESIDENT
STEVE DABROW
DISCUSSES FOOD,
FAMILY, AND
BUSINESS**

Jason Dabrow (left) and his father, Steve, currently work together in the family business.

Q Chelten House is a fourth-generation, family-owned business. Tell us about the history of the company.

A My grandfather started the business as an importer and distributor of specialty foods. When my father came into the business, they started to manufacture sauces and dressings under the Chelten House label. Since the core of the business was distribution into supermarkets, they were able to get these items into stores in the Philadelphia market. In the late '70s, our largest distribution account went out of business and this forced us to make a decision to get out of distribution and focus solely on the small manufacturing side of the business. In the mid-to-late '80s, I came into the business—the third generation in the business—and we entered the organic foods business. We were ahead of our competition in this niche market. Our growth came when we started doing private-label organic and all-natural foods for the retail industry across the country. We are the leading provider for this segment in dressing, pasta sauces, salsa and condiments. With the fourth generation now on board, we have expanded into two facilities: one in Bridgeport, N.J. and a new facility in Las Vegas, Nev.

Q Does keeping the business “in the family” help maintain the company’s objective of offering “only the finest” food products to consumers?

A “Family business” at Chelten House means the inclusion of everyone that works at the company. It’s a culture that has been built over years and gives us a huge advantage by having such a dedicated workforce. We run through walls for our customers and make sure the products they receive are “only the finest.”



Steve Dabrow (left) and his father Alan Dabrow represent two of the four generations of Dabrows who have provided leadership for the company.

Q In the highly competitive business of food production and distribution, what has been the key to Chelten House’s success over the past several years as many companies fought for survival in an unstable U.S. and global economy?

A First, we have the right strategy—creating healthy products for our customers under their label. Our chef and his staff have been creating innovative products for our customers and tapping into the at-home cooking trend. Second, we are doing business with the winners in the marketplace who are growing their businesses aggressively.

Q You just completed a new plant in Las Vegas. Did signs of new life in the U.S. economy factor into your decision to build this new plant? Please explain why or why not.

A The Vegas plant is a combination of running out of capacity in our current facility and the fact that we do a large amount of volume on the West Coast. I do think the economy is starting to pick up, but this was not a major factor in why we built the facility.

Q The organic foods market continues to grow as consumers become more and more conscious of ingredients in their food and beverage products. Your company entered this market during its infancy. What prompted this move, was it a good move, and what do you see for the future of the organic [food and beverage market](#)?


A Organic and healthy foods have been trending upward for 25 years now. This will continue as more people look to healthy eating as a major part of their lifestyle. At the time we got into organic, we were a very small business literally just trying to survive. We were desperate to find a niche that could separate us from our competition. We got lucky and it has been a great run in the organic market.

Q What are the three biggest challenges for food and beverage manufacturers today and how is Chelten House tackling these challenges?

A Our biggest challenge is constant regulation at our manufacturing facility and the intensity of auditing from our customers. This is a part of the business that we have embraced knowing that it is not going away and will only make us a better supplier. Our business is one of short lead times on orders and we must be proactive and extremely flexible in getting our customers the product on time, every time. Another challenge is a constant change in nutritional values that are being pushed. Right now, it's all about sodium levels in our products. Having to reformulate our some 600 recipes and still ensure they taste right is a very difficult task.



The Chelten House brand Simply Natural is the No. 1 brand of organic pasta sauce, salsa and salad dressings sold in Canada.



Q Now that the Food Safety Modernization Act is taking form, what will this mean to food and beverage processors and distributors? Do you believe the industry is prepared for the new regulations that will be enforced?

A Safety has become such a big issue at not only our factory, but I am sure at all factories around the country. Everybody has been working hard at putting themselves in a better position as this act moves forward.

[Chelten House celebrated the grand opening](#) of this 97,085 s.f. manufacturing facility in Las Vegas, Nev. earlier this year.



WHEN DEMAND OUTPACES SUPPLY

Burgeoning Organic Food Movement
Creating Ingredient Shortages for
Organic Food Producers

Just a few short decades ago, the organic food movement was limited to a few forward-thinking farmers and food producers who saw potential for a new niche market, serving consumers who desired foods free from pesticides, industrial solvents and additives. With a growing public perception that organic food is safer, more nutritious and generally tastes better than foods produced by conventional methods, the demand for organic food and beverages has surged, leaving organic food producers clamoring for more access to organically grown and raised crops and livestock.

According to the [Organic Trade Association \(OTA\)](#), U.S. sales of organic food and beverages grew from \$1 billion in 1990 to an estimated \$29.22 billion by 2011. Additionally, organic offerings represent 4.2 percent of all U.S. food and beverage sales, a trend expected to continue through 2013. Some estimate that organic sales now total over \$35 billion. Because of this growth, the OTA contends that the organic sector is one of the few industries that continue to add jobs to the U.S. economy.

In March of this year, the [National Organic Program \(NOP\)](#)—a USDA agency responsible for administering and enforcing the regulatory framework governing organic food—published its latest list of certified organic operations in the U.S. The list includes some 17,750 certified USDA organic farms and processing facilities, representing an astounding 240 percent increase since the NOP began tracking this data in 2002.

Likewise, the international organic sector is experiencing record growth due to urbanization, higher levels of education, and a growing middle class in countries once plagued by poverty such as China and Mexico. This past February, the [Research Institute of Organic Agriculture \(FiBL\)](#) and the [International](#)

“... organic food sales reached \$62.9 billion worldwide—a \$4 billion increase since 2010.”

[Federation of Organic Agriculture Movements \(IFOAM\)](#) presented their latest statistics on organic farming, which found that organic food sales reached \$62.9 billion worldwide—a \$4 billion increase since 2010. The study also found that 1.8 million farmers in 162 countries grow organically on more than 37 million hectares of agricultural land worldwide.

What’s more, of the 1.8 million farms that grow organic crops and raise organic livestock, approximately 80 percent are located in developing countries, according to the market research company Organic Monitor. Countries with the most producers are India, Uganda, Mexico and Tanzania, and the countries with the highest growth rates are China, India, and Spain.

“Two-hundred-thousand new organic farmers—this is good news for the environment and for the social and economic development of rural areas,” said IFOAM president and Australian organic farmer Andre Leu.



But while organic farming continues to grow at an impressive rate worldwide, demand for organic food and beverages is far outpacing supply. Meanwhile, the cost to import organic foods from overseas remains prohibitive to many U.S. organic food processors and retailers. According to the [USDA's Foreign Agricultural Service \(FAS\)](#), the United States spends more than \$1 billion each year to import organic food, and the ratio of imported-to-exported products is now about 8-to-1.

So, why aren't more American farmers taking advantage of this seemingly enormous opportunity to meet the demand of such a rapidly growing market? The answer is simply cost. The OTA says that prices for organic food mirrors the costs for conventional food in terms of growing, harvesting, transportation and storage, but since organically produced foods must meet stricter regulations, the process requires more management and labor, adding cost. For many U.S. farmers, this cost burden outweighs the benefit of dedicating acreage to organic farming.

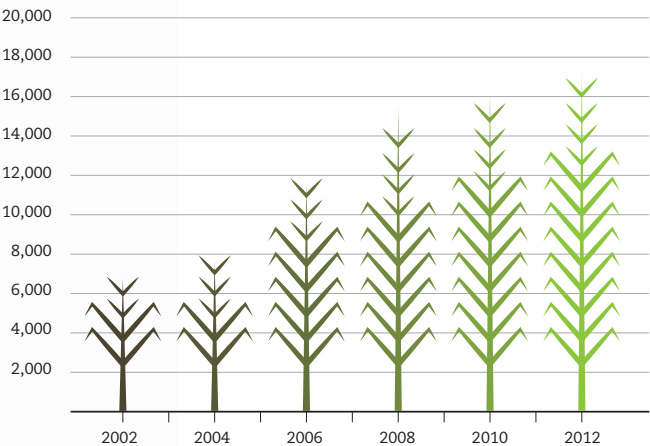
One glimmer of hope for organic farming is a revised Farm Bill with provisions to encourage more organic farming in the U.S. These provisions include funding for organic research and extension activities; data collection on the organic sector; a cost-sharing program to offset organic certification costs for new or small farms; continuation of the federal organic regulatory agency, the NOP; a cost-sharing program to aid organic farmers in implementing conservation practices; and organic crop insurance. The bill was approved by the Senate but shot down by Democrats in the House due to deep spending cuts on food stamps for low-income families. The bill is expected to be revised and brought back for a vote by Congress before the 2008 bill expires this September.

There is no doubt that the organic food movement is here to stay. As people become more and more choosy about the food and beverage products they consume, organic food producers will be challenged with meeting the demands of this ever-growing market.

USDA Certified Organic Operations

Domestic, 2002-2012

* Foreign operations may also be certified to the USDA organic standards



Since 2002, there has been a 240 percent increase in the number of certified organic operations. This chart illustrates this steady increase over the last 11 years.

GRAY... WE'RE BUILDING

COSTCO WHOLESALE CORPORATION
Lexington, Ky.



Gray was selected by [Costco Wholesale Corporation](#) to build its first wholesale warehouse in Lexington, Ky. The front entrance of this 157,504 s.f. retail warehouse will feature Kentucky river stones, an element unique to this project. The property will also include a 16-pump fuel station. Construction is scheduled to be complete by October, 2013.

This project represents Gray's seventh for Costco since 2010. Gray recently added a fueling facility to the Costco in Brookhaven, Ga., a warehouse also built by Gray. Other Gray-built projects include a warehouse in Bucks County, Penn.; warehouses and fueling stations in Concordville, Penn. and Farragut, Tenn.; and a remodel of the freshline departments inside the Town Center Costco Wholesale in Kennesaw, Ga.

Costco, known for its loyal customer base and better-than-average employee wages and benefits, was named "Retailer of the Year" during the 2012 World Retail Awards in London, England.

Costco Projects

- | | |
|------------------------------|--------------------------|
| A Brookhaven, Ga. | D Farragut, Tenn. |
| B Bucks County, Penn. | E Kennesaw, Ga. |
| C Concordville, Penn. | F Lexington, Ky. |



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