

MADAM COCOLAT

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LUNCHTIME IN PALO ALTO, CALIF.

At a table in a gourmet coffee shop at the stylish Stanford Shopping Center, a 35-year-old woman sips her French-roast coffee and nibbles on a confection she has surreptitiously removed from a distinctive black shopping bag stamped with gold rectangles and the word "Cocolat."

The woman, dressed in paisley and wearing pearls, is a financial consultant with a Ph.D. in chemistry from Yale and an M.B.A. from Berkeley. She is making a meal out of her coffee and a \$1.75 lemon roulade: a cylinder of pale yellow spongecake filled with delicate lemon cream, dusted with powdered sugar and studded with toasted almonds. She explains why she has chosen the lemon roll over Cocolat's hallmark chocolate truffles, to which she is addicted. "Chocolate" she says, "is far too heavy for lunch."

Chocolate truffles were virtually unknown in the United States when, in 1973, Alice Medrich started making and selling them from her home in Berkeley. Cocolat, her specialty chocolate company, has flourished in tandem with America's growing taste for upscale foods. Per capita consumption of chocolate has risen from 9 pounds in 1976 to 11.2 pounds last year; luxury chocolates, selling for \$12 to \$35 a pound, now account for up to 15 percent of total dollar volume - twice as much as a decade ago.

One of Cocolat's seven Bay Area stores is located a few doors down from the coffee shop in Palo Alto. On this day, Alice Medrich, 38 years of age, is paying a visit to her Stanford Shopping Center store. She wears beige pants, a black silk jacket and high-heeled, sling-back, patent leather shoes. Her style, it should be noted, is just like that of her customers. "It is different from the old days," she says, "when the baker was a whole different social class from the customers, who were carriage trade. Our customers are sophisticated, well-traveled, educated people who work hard and reward themselves with quality treats."

Behind the shop's clear glass storefront sits a long display counter filled with sculptured confections. Cocolat's top seller is the \$18.50 reine de saba, a chocolate torte flavored with almonds and cognac that serves up to 14 people. Next to it is enshrined a tricolor mousse that serves 16: white, mocha and bittersweet chocolate. Its sole adornment is a chocolate version of a wax seal complete with flourish.

A place of honor is reserved for the trays of truffles - rich, dense combinations of chocolate and heavy cream, flavored with liquor, liqueurs, fruits or nuts. There is an ever-changing selection of truffles including cafe au lait (an abstract sculpture of taupe-and-white marble) and milk chocolate sprinkled with toasted almonds (a sleepy hedgehog).

The best-selling truffle is bittersweet all the way through, but there are truffles flavored with whisky, pecans, caramel, dark rum . . . all wickedly sensuous, velvety smooth and filled with calories. By the second bite, customers are contemplating a grueling workout at the gym: the price they will pay for their indulgence.

Cocolat's operation brings in an estimated \$5 million a year (a privately held company, it discloses none of its vital statistics). It has seven specialty chocolate and dessert stores in the Bay area and sells its products through two Macy's California stores; its truffles are shipped by refrigerated airfreight to 400 outlets nationwide, including Zabar's in Manhattan and Jacquisine in Houston. Yet, like many another start-up enterprise, Cocolat has had its share of pitfalls and miscues, including a near-fatal overexpansion and a struggle over marketing strategies.

ALICE MEDRICH IS seated in her tatty office in the converted Berkeley computer assembly plant that is Cocolat's headquarters and production center. Inside is the overpowering smell of warm, melting chocolate. Medrich's alert, cocoa-bean brown eyes flash under a mop of curly jet-black hair, and she leans forward intently as she talks about her first taste of a chocolate truffle.

It happened in 1972, in Paris, where her husband, Elliott, was on the staff of the Organization for Economic Cooperation and Development. In honor of her birthday, their landlady served up bite-sized bonbons fashioned from the best dark chocolate, sweet butter and eggs, and rolled in a dusting of fine cocoa powder. Alice Medrich was bowled over; nothing had ever before tasted "so intensely chocolate," she says. She felt she was "eating luxury," an experience she identified as idiosyncratically French. "Jean-Paul Sartre and Simone de Beauvoir, even as impoverished students, went out and ate foie gras and drank champagne," she says. "What a sense of celebration!"

Parisian truffles were a far cry from the Hershey's and Milky Ways Medrich had known in Temple City, the middle-class Los Angeles suburb in which she had grown up. Her mother had not been a noteworthy cook, and Medrich had harbored no fantasies of a career as a culinary star. In fact, even today, Medrich sees herself as a baker but not a cook.

During the Medriches' years in France, a new culinary Zeitgeist had begun to take hold back home in North Berkeley. Alice Waters, one of the pioneers of the light and eclectic school of "California cuisine," had opened her now-famous restaurant, Chez Panisse. By the time the Medriches returned in 1973, Berkeley, once noted for sit-ins and student rebellions, had acquired its first self-styled charcuterie and a specialty cheese shop. As the writer Judith Moore has put it, "Smoke of mesquite barbecues had replaced tear gas."

Medrich began making and selling truffles in the same larky spirit as a 10-year-old setting up a lemonade stand. The Medrich truffle, based on a recipe she had picked up in Paris, had a soft center that was dipped in melted chocolate. "The center was so soft that it was hard to dip, and I was getting these big, lumpy things instead of neat little truffles," Medrich says.

Most candy makers temper their chocolate, taking it through cycles of heating and cooling to give it a glossy, uniform finish. Medrich does not temper her coating chocolate, "which means the truffles respond instantly to the warmth of your mouth and give you a different perception of taste and texture," she says. On the other hand, she acknowledges that the results of her technique "look funny and have to be stored in a refrigerator."

A few weeks before Christmas 1973, Medrich took a handful of her truffles to the neighborhood charcuterie, Pig by the Tail, and diffidently asked if the owner would consider buying some. "I don't know what got into me," she says, still amazed by her own boldness.

The next day, the owner asked if Medrich would bring in 25 dozen truffles. Medrich sent her husband Elliott to nearby grocery stores to buy up all of the eight-ounce semisweet Ghiradelli chocolate bars he could find. Then she set to work hand-

fashioning 300 truffles. The next day, the owner of the charcuterie asked for another order, and so it went. Medrich made truffles every night, often working into the small hours. Soon, a truck was regularly drawing up to the Medrich garage to deposit 30 10-pound bars of Ghiradelli chocolate.

Medrich, whose undergraduate degree was in Latin American history, entered the M.B.A. program at the University of California, Berkeley, in the spring of 1974. "I didn't know what else to do," she says, "and the two-year program seemed fast." She discovered, however, that "It just wasn't me." In 1975, she journeyed to Plaisir, a suburb of Paris, to take an intensive one-week course in dessert-making at a school run by Gaston Lenotre, France's master patissier. Medrich learned to make daintier versions of the truffle, but, back home, her customers had become addicted to the larger version. The "big lumpy things" soon became known as California truffles. "They are wonderful, marvelous," Maida Heatter - American doyenne of chocolatieres - says reverentially, her voice dropping a register.

The Medrich truffles are distinguished not only by their taste and size, but also by their simple, clean lines -a sharp contrast to the fussy, often rococo look of other expensive desserts. There is little doubt that her style was influenced by Lenotre, who favors streamlined, contemporary designs.

Medrich also developed a line of chocolate cakes. Some are reminiscent of primitive art; some suggest restrained interpretations of Art Deco; others are so plain that critics scorned them as downright clunky. Medrich finishes her cakes with a thin butter cream or an opaque and sleek glaze; cakes for such special occasions as weddings are adorned with fresh-cut roses, delphiniums and chrysanthemums.

After dropping out of the M.B.A. program in 1976, Medrich opened her first shop and bakery with \$14,000 acquired from family sources. No bank would lend her any money. She called her store "Cocolat," a child's version of the French word "chocolat." Though the store, in Medrich's words, looked "raggedy and unprofessional," on the first day of business every cake and truffle on display

disappeared within three hours. The rich confections became a consuming passion for the students, teachers and young professionals who lined up at the store, waiting for the next tray of truffles to come out of the back.

But along with success came the inevitable competitors. The most notable, both based in San Francisco, were the Candy Jar and the San Francisco Chocolate Company. These were joined by Aphrodite chocolates in Los Angeles and Godiva chocolates, which were available in Macy's California stores. All, Medrich says, were competing for the same "chocolate dollar."

ELLIOTT MEDRICH, A slight, 41-year-old man with a Ph.D. in city and regional planning from Berkeley, says that his initial role in Cocolat involved little more than "making sure Alice got out of bed at 4 in the morning. She worked 20 hours a day, seven days a week and had no one to depend on but herself." That was before a series of events forced him to take a larger part in his wife's chocolate venture.

For several years, as the company struggled to keep pace with the demand for its products, the Medriches had turned down the banks that were offering them loans to finance an expansion. But Cocolat now had three stores to supply, and their 800-square-foot bakery was inadequate. In 1981, the company obtained a \$275,000 bank loan, which was negotiated in a matter of seconds; no financial statement was required by the bankers. "If they had sat down and made us tell them how we would use the money and how we would pay it back," Elliott Medrich says, "we'd have had a much harder time demonstrating that we knew what taking the money meant. We'd have given more thought to the strategic elements of running the business, but I'm still not sure that would necessarily have made a difference."

The loan financed a move into the 10,000-square-foot former assembly plant they now lease, and additional ovens, chocolate melters, candy stoves and refrigerators. But the expansion was done "too soon, too soon," Alice Medrich says. The new premises were "far too expensive for the level of business we did, so we had to grow larger." It was at this pivotal point, Elliott Medrich says, that "we went from

being a small business with good product and obvious potential to being a business that had to worry about debt management and being accountable to people other than ourselves." Cocolat had to justify its ways to the bank's loan officers.

The company had, up to this point, relied substantially on its truffles, which won rave reviews from magazines such as Cuisine: "Their pervasive perfume and flavor explode, satiating cravings for a 'bite of something sweet.' " With notices like that, the company did not need to buy much advertising. Elliott Medrich says that between 1980 and 1986 the company spent only about 2 percent of its gross on advertising and public relations. But California truffles made by others began eating into Cocolat's market.

Pressed by the carrying charges on its loan, and the rent on its huge bakery, Cocolat, for the first time, reached out to new customers. It opened a fourth store and started offering its goods to local restaurants and hotels, including the Saga Corporation and Hyatt Regency in California. But Cocolat was losing money. The company that had prided itself on having no debt developed an increasing appetite for loans.

The strain on the founder was considerable. "Alice came to me and said, 'Help,' " Elliott Medrich recalls. He was running a research institute within the School of Education at Berkeley, but he went on a part-time schedule there and took over the business side of Cocolat.

As news of the company's financial troubles spread, the Medriches were inundated with buyout offers, but they held fast. In 1983, they recruited an outsider, a businessman named Allan Sanders, then 44, to be president and chief executive officer. Over the next two years, the number of Bay area Cocolat stores grew from four to its present number, seven, and the company's wholesale business expanded steadily. Medrich developed new products, such as her bittersweet- and white-chocolate dessert cups and chocolates filled with eau de vie of kiwi, pear, quince and raspberry. Cocolat received a \$555,000 Small Business Administration loan, with a \$250,000 line of credit. And its financial statements once again showed a profit.

Yet Alice Medrich was dissatisfied. Sanders, she says, "had some feelings about the future direction of the company that were different from what we had; we realized that it wouldn't be a match that would last forever." Sanders, she says, proposed that Cocolat develop a line of frozen, premium desserts to be sold in supermarkets. The Medriches felt that frozen foods would be too great a departure from their basic business. They also felt that Sanders wasn't helping them "to get far enough, fast enough."

In the spring of 1987, the Medriches contacted Morton Miller, who, after a long career rescuing failing department-store chains, had joined a San Francisco venture capital firm called Early Stages. "It was clear that the business was going nowhere," says Miller, now 65, a short, wiry-looking man with a captain-of-industry air.

Sanders and the Medriches parted company late in the summer of 1987 (both sides are chary with details). In exchange for an undisclosed stake in the company, Miller agreed to run Cocolat fulltime as president and C.E.O., with Alice as chairman and principal stockholder and Elliott as vice-president of operations. Product development, the bakery, its staff and products would continue to be Alice's domain. Elliott would supervise the managers of the seven stores, the accounting department, packing and shipping and the purchasing department.

Miller's expertise was in marketing. "Marketing is information," he says. "But when I arrived here and asked, 'How many of this kind of cake did you sell last week?' no one knew." Miller asked for a profit-and-loss projection for the following year. "Someone went away for weeks and brought in this vast spreadsheet with everything entered on it by hand," he recalls, still appalled by the thought. One of his first moves was to replace Cocolat's existing computers.

He also set about changing the presentation of goods on the shelves of Cocolat's stores "so that instead of being arranged to look, for example, like an Indian rug, which was confusing, the products were set out so customers could get to them." Miller says that as a result of this sort of improvement, which he describes as being "from retailing kindergarten," the quarter ended last Dec. 31 was Cocolat's best.

Cocolat actually lost money for 1987 as a whole, but Elliott Medrich ascribes that to "a significant investment in building a wholesale sales staff, travel and product development and public relations. All of that represents a quarter of a million investment in direct costs, and we did that out of current company resources, which is why we lost money." Miller expects the business to be profitable in 1988.

THERE REMAINS, however, the question of where Cocolat is going. For Alice Medrich, scaling back the business and moving out of the too-large facility are simply not options. Her model has always been the combined dessert factory, school and catering organization that Lenotre has become. "It's big, but has maintained its reputation for excellence," she says. And Medrich would like Cocolat to open more retail stores. "There's tremendous competition now," she says, "and if you're not where the customer is . . ."

But Miller has persuaded the Medriches that, for the short run, the company needs to expand its wholesale business and to sell Cocolat's products through upscale department stores and by mail order. Because department stores rarely have refrigeration, Cocolat, at Miller's behest, has created new products that do not require cooling: chocolate-covered almonds, chocolate-covered hazelnuts, milk-chocolate-coated toffee and "raisin bark" - raisins embedded in irregular sheets of bittersweet chocolate. Miller says that last Christmas the chocolate-covered almonds alone more than made up for the declining share of their business that truffle sales represent. A line of tortes and cakes that will not need refrigeration is also under development.

Miller aims to increase the wholesale portion of the business to about half; it currently accounts for 20 to 25 percent of Cocolat's sales. "If you want to open 10 stores, you need \$2 million in hand," he says. "You don't need that sort of capital in wholesale and mail order." Later, with 10 to 12 successful months behind the business, he adds, "we can go out and get some capital and start doing some things that cost a dime."

Initially, Miller says, "my biggest concern was capital, the lack of which has sent many companies down the drain." But he carefully steered the Medriches away from venture capitalists. "Mort persuaded us," Elliott Medrich says, "that we'd have to give up far too much control if we went that route." Instead, Miller plans to raise money for Cocolat through private investors or major institutions that would take a minority interest in the company. "Down the pike a few years," Miller says, "we're either going to have to go public or be acquired, or perhaps merge and become a completely different company. Who knows what the future will bring?"

Elliott Medrich does not see franchising as a part of Cocolat's future. Franchises have "relatively simple products, easily formularized. With our products, extremely complex training and quality control are as important as the formula. Top-of-the-line, high-quality businesses tend not to be franchised - Tiffany's, for instance. And that's what we are. The minute we start franchising, we'll be just another business."

MILLER SAYS THAT Cocolat must grow because "there are inefficiencies of scale." He talks eagerly about a new, \$50,000 production line, "which would take over the labor-intensive job of hand-dipping the truffles and so allow us to make many more of them." And he is not concerned about a possible economic downturn. "We are sort of recession-proof in our business," he says. "Dessert sales tend to go up in bad times because people tend to eat sweet things to make themselves feel good."

But how large should Cocolat grow? Alice Medrich feels that the business at its present size depends too critically upon her and her husband. A larger, more professional and financially sound company, she hopes, will be less all-consuming. Her husband adds, "We are nearing a crossroads and are not sure what direction we will take, personally or professionally." He sometimes wonders about returning full time to teaching.

Yet Alice Medrich harbors a grand vision of the future of Cocolat and chocolate. She believes there will come a great day when Americans will be able to discriminate between the products of cocoa beans of different origins, just as serious coffee

drinkers dither over whether it is Tanzanian Peaberry or Ethiopian Mocha Harrar. She thinks it not inconceivable that gourmets could one day return to drinking chocolate prepared like that of the Aztecs, without milk or sugar. "I think it's an undeveloped taste that I could certainly acquire," she says. "Today, people only know cocoa as this rich, sweet thing. Why not appreciate the subtlety it's capable of?" When she talks that way, Madam Cocolat does not sound like a woman who is ready to sell her company and take up knitting.

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