NJFPA NEW JERSEY FOOD PROCESSORS ASSOCIATION
Food Forum
STRADLEY RONON

Season 2 - Episode 2
"Keep Growing, Keep Changing, Don't Melt"

Welcome to the second episode of Season 2 of the NJFPA Stradley Ronon Food Forum Podcast. In this episode, Bill Mandia, Partner at Stradley Ronon Stevens & Young, speaks with Dan Kilcoyne, president and CEO of Mini Melts Ice Cream. They talk about starting a business as a teenager, that investing early in support services is worth it and why to always read the manual first.

Guest Bio:

Dan, as a freshman in high school (Father Judge High School-Philadelphia, PA) started his business career along with his brother, Shawn, who was a senior at the time.

As President/CEO of Mini Melts Ice Cream. Dan has grown his business from a local Philadelphia upstart to national distribution with tens of thousands of locations. His company has corporate operations in 14 locations with their main manufacturing facility in Norwich, CT and corporate headquarters located just outside of Philadelphia, PA. Dan's company has partnerships with some of the largest venues and retailers in the world with millions of people purchasing Mini Melts each year. A pioneer in the Automated Retail and DSD Space, Dan has uniquely positioned Mini Melts Ice Cream to be a manufacturer, distributor, last mile supplier and in some cases a retailer of a ultra temperature sensitive, cryogenic product.

Personally Dan serves on numerous non-profit boards with a special interest in entrepreneurial education. He currently is Vice Chair of the Friends of Father Judge High School and serves as a Trustee for Holy Family University. Dan is a recipient of two good citizenship awards from the Pennsylvania State House of Representatives and Philadelphia City Council.

Listeners will hear:

- How he had to get a ride from dad to his first business pitch.
- The benefits and pitfalls of starting a business as a teenager.
- Why you should always read the manual first!
- On backfilling your distribution route.
- How they gradually expanded the scope of the business from sales to manufacturing and more.
- Experiences with a variety of distribution models: hand cart, brick and mortar storefront, vending machines, and direct store delivery.
- How to stay nimble and avoid supply chain disruptions.
- That investing in good support services [attorneys, accountants, etc.] will save you in the long run.

Edited Interview Transcript

Bill Mandia [1:22]
Hello, and welcome to another episode of the Stradley Ronon NJFPA podcast today. I'm really excited to have Dan Kilcoyne CEO of Mini Melts Ice Cream. Dan, welcome to the podcast.

Dan Kilcoyne [1:34]
Good morning Bill.

Bill Mandia [1:35]
If you could real quick just tell our listeners a little bit about yourself and what you do at Mini Melts.

Dan Kilcoyne [1:42]
Sure. As Bill said, my name is Dan Kilcoyne. I'm president and CEO of Mini Melts Ice Cream. We're a 14% beaded ice cream, a cryogenically frozen product. So we have distribution points throughout the country, but mainly based on the east coast and run the day-to-day operations from manufacturing, distribution, and all the way down to retail sales.

Bill Mandia [2:06]
Great and if you could, I love the background story of your company. It is so great. 1) It's just a great story and 2) it started at the best high school in America, Father Judge in Northeast Philly. So if you could just tell everyone how you got started in the business and how you grew up.

Dan Kilcoyne [2:21]
I agree. It is the best High School in Northeast Philly, for sure, and arguably in the city, region, and state. So as Bill mentioned, we actually got our start in high school. When I say we, my brother Sean and I started out originally setting up an ice cream freezer with a competing brand in a high school in Northeast Philadelphia called Father Judge. We were able to roll the freezer out at any special event. Any fair, festival, sports game, you name it, we were able to set up there. It gave us the ability to save up enough money to open one physical store, and then numerous stores thereafter.

But the way that we ended up getting started was my brother sent a business plan out to this competing company with an idea that we would like to set a store up in Philadelphia. They had no idea how old we were. We got a letter back in the mail two weeks later that says sounds great, when can you start? We said oh man, we better go tell mom and dad what we did. My dad, a former marine, a life lessons guy, he was a crane operator at the Camden waterfront said look, they asked to have a meeting. I'll take you out there. But if they yell at you, they laugh at you, they tell you to get the heck out of the office, just shake their hand and I'll deal with you later.

So the nice thing was we got a day off from school off to my dad's pickup truck, we drove out to their office, which was in Kentucky. There was a ton of confusion. They thought my dad was my brother, my brother was me, I was a 13 year old kid that they didn't have a babysitter for. We were fortunate enough to convince them that we were really serious about doing it. And the compromise there was to allow us to set up our first store, quote-unquote, "store" in our high school cafeteria.

Bill Mandia [4:08]
So you have a great story in terms of how you started from those roots to where your business is today. So if you could talk a little bit about some of that. And maybe some of the twists and turns you've had along the way. I think it can be very helpful for a lot of our listeners, early-stage entrepreneurs. I think there could be some good lessons in there for them to hear.

Dan Kilcoyne [4:28]
So when we set up our first store. I will call that high school, Father Judge location, our first store. We learned a tremendous amount of knowledge that we just quite frankly, could not have gotten on our own. We were able to run an almost incubated business. Now there was no rent, which was nice of Father Judge to not charge us rent, very little labor. It did provide the fundamentals of inventory management and making sure that we were set up in the right location. From there, we took those lessons and expanded that into more retail stores. So more locally in the Neshaminy Mall, Cherry Hill Mall, other locations like that.

So from my freshman year of high school to senior year of high school, we had opened up 18 physical retail locations in a little under four years. So everything was moving in a great direction. But in that timeline, when you think about '97 to the year 2000, my senior year of high school, the foot traffic in the malls was descending. The mall rents were increasing quite a bit. We were right on the cusp of that real estate bubble there. So as we started to look at the market, and where else could we bring the product, we realized that we were really limited with the structure that we had.

After that realization, we received a letter in the mail that that competing product, the brand we were with at the time, was converting to a franchise. Franchise fees, royalties, basically, the business that we had built in the whole Mid Atlantic area was going to be taken away from us. That was not a model that worked for us. So we ended up breaking away. Mini Melts Ice Cream is a brand that was started in Europe, they were always looking for a foothold here in the US. So a group of distributors had broken off, contacted Mini Melts Ice Cream, who had set up manufacturing here in the States. We became a distributor of that group and started basically back over.

Now the challenge there is when you sign a contract, when you're 13 years old, you don't get sued, your parents get sued. So we went through a pretty significant lawsuit that

ultimately we won. But we were fortunate in the fact that our parents, and again, I go back to my father who, unfortunately, is deceased. He's just such a life lessons guy, look, this is not right. So we're going to fight this and we're going to win because this is what makes sense. That was just ingrained in him and the type of person that he was. We won the lawsuit ultimately. Our victory was, we were allowed to continue selling ice cream. But we went back to zero, no stores, no employees, no physical location. So when we restarted the business, we decided that the physical stores were probably not an option for us. If they were, they were too far of a reach away, because the rents were so high and the investment would be so great.

So in 2004, which is my senior year of college, I graduated from Holy Family University. We had started up the exact same way that we started out while we were at Father Judge. We started rolling freezers to special events: cheerleading, competitions, fairs, festivals, anywhere that would provide us an outlet to sell the product. We were able to save up enough money. Instead of going into the physical retail space, we went into the automated kiosk space or the vending machine locations. It seemed like it would be a good fit for our product, we're very impulse-driven, small footprint, so the lease agreements shouldn't be as expensive. And they were more mobile, where before we were building out these stores and spending hundreds of thousands of dollars in build-out. Now we could place these automated kiosks in locations where there was foot traffic. And if it didn't work, we could pick it up and move it to another location.

We started with our first vending machine. It got delivered, we, God forbid, didn't read the manual to learn how to actually work the machine. And on the first day, we broke it. The whole assembly came crashing down. But it also provided us the opportunity to learn the machines from the ground level. Because we had stripped it down to the ground level, we now had to build it back up. It helped us learn the way that the machines operated and what we needed to do to improve the units for our product. We expanded from one machine to 10 machines to about 25 in the area. Then we were contacted by Walmart, who saw some of our vending machines and they were interested in putting the automated kiosks in their vestibule. We did 10 locations with Walmart in the New Jersey area. We rolled them out in February which is not a great time to roll ice cream vending machines out in vestibules. But the sales were significant enough that it got their attention and they asked for us to continue rolling out.

Instead of doing it on the East Coast this time, they wanted us to go out to Southern California. That was a big jump for us because at that time we were mainly East Coast driven. We would have to set up a distribution facility out west and we didn't own the manufacturing at that time. So it presented us with challenges, it also felt like what we had just went through five years previous. Where we had built this business up but at any moment, it could have been taken away from us. So we approached the manufacturer and we worked out an agreement to take over the manufacturing of the product in 2009. From there, we really wanted to change the way that we went to market. So we manufacture the product, we bring it to the end-user wherever we can. And now we're on both coasts, one in Philadelphia, one in Southern California, and our manufacturing facility up in Connecticut.

Bill Mandia [10:48]
So one of the things I think is really interesting about your story and the history of your company is, you made this transition from brick and mortar and freezers to vending. You were doing very well with that, from the time period you're talking about where you took over the manufacturing,

etc, up until the pandemic hit. Then you had to make another huge pivot. So can you talk a little bit about that, and what has changed for you guys?

Dan Kilcoyne [11:16]
So the focus for us from 2009 to 2017 was the growth of the automated kiosk. Our consumer is pre-teen to teenagers. And what we liked about the automated kiosk was for good or for bad, our customer base is not all that interested in personal interaction. They want to be able to order what they want, get what they want, and get it when they want it. That was the nice thing about the automated model. It could be anywhere. If a 13 year old wanted to go and get a cup of cotton candy at one in the morning, they could go to our machine and order that. If somebody wanted to order a cup of cookies and cream at six o'clock in the morning, they could do that.

Where we saw some potential challenges is, it was a considerable amount of CAPEX [capital expenditures] to continue to install these locations and we became more national. So from the Philadelphia and California depot's we then expanded into Florida, Atlanta, Texas. We broadened our distribution nationally. But for every new placement that we had to put out, we had to put rather expensive machines out there. In 2017, we started manufacturing our own machines, which allowed us to have some flexibility there in terms of putting more machines out, the right machines out for our products.

Then we started to realize that we were driving past 1000s of locations. Our drivers would go out and go to a mall or to a Dave and Busters or a family entertainment center. But we were passing the Quick Checks, the Wawas, the 7-11s of the world. So in 2017, we started more of a DSD, a Direct Store Delivery model. It was nice because it fit into the existing automated routes that we had. So our drivers leave our facility, they get routed by our team here and they go to a vending machine, then they go to a freezer then they can go to a wholesale account and it's all the same product. I mean, we only distribute one product which is Mini Melts. Right up until COVID we were probably about 80% automated 20% DSD. Come the middle of March, our 80% automated went to practically zero. We did have some markets down in the south that were producing. But the whole foundation that our business was made on was malls, family entertainment centers, and high traffic areas. Those all disappeared almost overnight.

Fortunately for us, we did have a backup plan. We did have this DSD model, and we put a full focus on how we could expand into these markets. We had already had some tests going with 7-11. We quickly were able to get a test with Wawa, other stores like Walgreens, more locally Quick Check and Heritage. Within those eight months of 2020, we put over 1800 new locations out in that C store [convenience store] market. What was incredible to us was the volume was actually better than the volume that we would see in most of our traditional vending locations. So where we were 80%, automated 20% DSD, that number has now flipped and we're more 80% DSD and 20% automated at this point.

Bill Mandia [14:58]
So let's really quickly jump back in the Wayback Machine to March 2020. COVID hits, you find out that 80% of your business is basically going to disappear overnight. Can you talk a little bit about what was going through your head, and then how you regained your footing and then implemented a new strategy.

Dan Kilcoyne [15:17]
We were in an expansion mode coming out of 2019 into 2020. We just had our agreement

finalized with Dave and Busters. So we were rolling out with them nationally. We had 80% of our available equipment loans dedicated to vending machine purchases and built out that way. When everything stopped, our operations were made in a way that we've never had to have a full abrupt stop. We manufacture it, we move it downstream, we bring it to our depot's, they continue that pace. So the first thing that we've never encountered was there was a full backlog at the manufacturing facility.

We had more products than we were able to physically store. That is what drove the emphasis, well we have to find somewhere else to put it right? Our product melts, unfortunately. So we had to find somewhere else to put it. From there, it was managing all of the expenses that we had, while realizing that little to no revenue was coming through. We were fortunate that we got on the government grants and things like that early. Which you know, from a business owner perspective, were a complete lifesaver for us. Then from there, it was a whole new set of challenges. We had a supply chain that we were comfortable with. We knew where we could get parts, we knew where we could get component pieces for the automated machines. FEMA had declared freezers an essential item. So our backup plan was to go all DSD. But we couldn't get the freezers for it so we ended up having to expand our reach. I found myself going for a backup of a backup supplier, buying things internationally, paying more than what we would ever want to have to pay.

But it was the reality of and I think that anybody who owns a business that went through this, it was the reality of COVID. You just had to survive the day. Then you figured out how to survive the week, and then the month, and then finally got to the point where you felt like you could really plan again.

Bill Mandia [17:28]
So one of the things that I think it's come out for so many businesses as a lifeline for COVID, and I think for you, too, is mobile food delivery. This was starting to become a factor even before COVID hit. But I know, for instance, myself, I never did any mobile food delivery prior to March 2020. I certainly did some of it after that. So anyway, I'd be really curious to hear you talk about what your experience has been with that. Do you see that becoming a permanent fixture going forward, where more people are relying on mobile food delivery? Who, maybe in the past said, I'd rather go to the supermarket or were stuck in a pattern where that's just what they always did. So they kept doing it.

Dan Kilcoyne [18:11]
I think food is a little bit of a cyclical business, right? You had traditional restaurants, and then there was the birth of fast food. So that you were able to not get out of your car, go through a drive-thru, get what you want, and keep moving. Not to say that we were on the precipice of this, but with the automated kiosks, that's what we felt. Hey, let's put these machines in places where you can get it at any time. I think now the next level of this is the mobile ordering, the Uber Eats the Gopuffs the Gorillas of the world. They are just finding a way to get the product as quickly as humanly possible to the customer, which is the way that it should be done. Now, that being said, there are extraordinary costs that come with that. While you don't have certain expenses, how much do you want to pay for the luxury of getting that? And how fast are you willing to pay for that, so to speak.

So I do think that there's going to be a significant pivot in mobile ordering. But hopefully, if things continue to loosen up, you're going to see more people getting out there more, people looking to have the experience type economy that we were in, in 2019, where they

were going out. Then you'll have probably less of that mobile ordering. But without a doubt, mobile ordering is a factor and it's going to be here for a very long time.

Bill Mandia [19:38]
And so as that transition kind of plays out, where hopefully, we get more and more foot traffic in some of these traditional locations you've been in like malls and other retail outlets. Do you see your automated kiosk business really coming back strongly and then do you see that being a really nice complement to what you've been doing now on DSD?

Dan Kilcoyne [19:58]
That's the nice thing for us, that when we talk about our depots, our distribution centers. They always started as an automated kiosk depot. Everything that we opened up, we had to have at least 40 to 50 machines in the market for us to make it make sense. It provided a tremendous amount of flexibility for us. We could put the machines on a route in a direction of where we wanted it. Then we were able to backfill in whatever else we weren't installed in or what customer we wanted it to go to. Through COVID, we opened up a number of distribution centers, we have 17 distribution centers across the country. Five of those are 100% DSD distribution centers.

So there's a huge opportunity for us now because we are in markets where we were never able to bring the automated kiosk concepts before. Then we are seeing this increase, especially in malls and family entertainment centers where those foot traffic numbers have been steadily going up. Some of our biggest customers are in the trampoline park industry. If you look at the Urban Airs and the Sky Zones of the world, they're having numbers that they didn't even see in 2019 and we're a benefactor of that. The more people that go there, the more people that buy Mini Melts. It is absolutely a huge compliment to us and it helped us to expand the brand in markets that we could never reach.

Bill Mandia [21:33]
So there's a tremendous amount of discussion in pretty much every industry about what things that changed as a result of, changes that COVID forced on all of us, what things that were forced upon us are going to continue going forward? And then what things are not. I'd be curious, from your perspective, either at a company-wide or industry-wide level, what things do you see becoming more permanent fixtures that will continue? And what things do you think just were a matter of necessity, and once the pandemic is over people will be happy to be done with them?

Dan Kilcoyne [22:06]
It's interesting. So for us being a food manufacturer, for the most part, a majority of our team was on-site throughout COVID. Now, there were a handful of, I don't want to say non-essential, because everybody on our team is essential, but more of the office administrative type folks, where we were able to set them up working remotely. I think that we found that they were as efficient or potentially more efficient, working from home. What's been interesting is that now that we started providing flexibility of whether you could be in the office or not in the office, a lot more people have come back to the office than we thought. There is a communal aspect to the business and I think people like to be engaged. And sometimes you can just get things done a lot quicker face to face and in person.

But for us, I think the biggest takeaway is when you look at a company like ours, we set up these micro-distribution type sites, where we can be as nimble as possible, we can move as quickly as possible. I think there are some other companies out there that they're just not built for the way that things are adapting. They're too rigid in their structure, they relied solely on one point of distribution. From there, how do you meet the customer's demand? If you have a customer that expects to get it in 30 minutes, if you're moving at the pace of a dinosaur, it's going to be a real challenge to get there. So for us, we talk about that flexibility, talk about how we were able to grow through it. Now that's giving us a number of different distribution points to get it to that end-user quickly.

I don't think that trend is going to go away. You look at the massive supply disruptions that major major retailers are having, and a lot of it just comes down to trucking. It's not that the product isn't available, although in some cases it's not. It's that they physically can't get somebody to long haul products 1000 miles and get it there. For us having more product closer to wherever the end-user is only a benefit to us because then we can continue to push that product out. Then the manufacturing facility can just do what it's made to do, which is just run and run and run.

Bill Mandia [22:08]
So for our listeners who are sort of early-stage entrepreneurs, you've obviously been through a lot, a lot of obstacles have been placed in your path, most of which are outside of your control. Some of them had to deal with other business situations, like the competing brand you worked with and how they changed and COVID obviously. What are some of the biggest lessons or advice you could give to anybody who's early stage about things that are not readily apparent to them in the moment? When they're all consumed by just trying to build their brand, develop their product, and fulfill a mission. What are the kinds of things that you could say to them, hey, if I could go back, I do this differently or that differently?

Dan Kilcoyne [25:07]
I think for me, I'd break that down into two parts. There's the operational answer and then there's the business strategic answer. So let's take the operational one first. We talked about what we were able to do at Father Judge High School. There was nothing special about what we did there, with the exception of we didn't know any better. So if we failed or succeeded, it meant nothing to us, right? We didn't have a mortgage. I have three kids now, I am married. I did not have the pressure then, that you do now. I think in speaking with a lot of people that are quite frankly, a lot smarter than me, that are always talking about starting a business, and they have a great idea. I think it really comes down to the fact that you do just have to start, and you have to be okay with the fact that it may not be perfect. It shouldn't be perfect. To be able to grind it out, and not get to a comfort level of well, now, I'm just going to bring in a team or I'm going to build a team. Sometimes you just have to do the work, at least for me.

Then on the strategic business side, and one of the biggest mistakes that we made. This is not a plug for Stradley Ronon. But however, I have an attorney here from Stradley, Ronon with me. We without a doubt went too cheap on outside counsel, assuming it would never come or assuming we could not afford the better services that were out there. We knew there were better services out there. We just wanted to do everything on a budget. I probably wasn't skilled enough in a negotiation to go back and say, Hey, I know we really could use, we'll say Stradley Ronon's, help but I can't afford the package that was laid out. I just assumed that the package is the package. We've had some one-man band attorneys and accountants that in the long run cost us probably 10 times

what it would have cost us upfront. So getting the better strategic advice, the right business foundation, and then making sure that you don't over-commit to some of the fly-by-night folks that can make it sound really good. They can make it sound like they're established and they've been there. Ultimately, you have to protect your interest long term. And it's hard to think that way when you don't have hardly any revenue.

Bill Mandia [27:33]
A couple of things you've done there. One thing, I think it would be good for you to expound upon a little bit. I think on the financial services side, especially with accounting, that can be a big issue that I think some people don't think through. We give a few examples where having the right accounting structure in place [is important]. This is something we've talked about a lot on this podcast, I think it's a good, really good topic. In terms of when you're going out trying to raise equity, or take on debt, or, operationally, can you talk a little bit about the importance of making sure that you have the right kind of accounting partner to work with?

Dan Kilcoyne [28:09]
The way you do things when you start up, it is almost an impossibility to continue doing the way that when my brother and I started. Whatever was made in that week, we both made x, which was $500 a week, that's what we took. Anything else went back into the company. From there, we started to realize that, maybe we needed to better structure the way that we do things. We would take any and all loans and leases that were given to us because our business was so capital intensive. We're paying 28% on some of those leases, we didn't have the right guidance of somebody to sit down and structure that balance sheet the way that banks and potential equity want to see that. And to be honest with you, I can't say that I fault anybody that does it that way, right? That's that bootstrap mentality that we're going to make it and you're going to get there.

But there are groups out there that would be able to better structure or find you those tax incentives or those federal grants or things like that, that would really be able to help you and catapult you. Not just the business, but the whole core company in terms of what does your EBITDA look like? [Earnings Before Interest, Taxes, Depreciation, and Amortization] What does it look like on a Normalized P&L? [Profits & Loss] What does forward looking financials look like? We were never able to do that because we just were head down growing as fast as we could. Then when we did want to look about getting some equity, it was a pretty big eye-opener for us. And one of those things that had we done a little bit more work on the accounting side, it probably would have saved us a tremendous amount of time on the back end.

Bill Mandia [29:57]
Yeah, I think you're hitting on some great points there. One of the things that we come across, not infrequently, particularly with companies that have a great product, or a really good mission, good leadership in place is [issues with] those kinds of outside professional services. Whether it's accounting, insurance, law firm, I get it, you look at it in dollars and cents and at the time you're thinking I just need to be as lean and mean as I can on my expenses. But unfortunately, you're not alone in this, a lot of times it turns out to be much, much more costly, and frankly, emotionally painful, etc, to have to unwind certain things. It's hard to see those things as investments, as opposed to just a drain on your capital. But the reality of it is, I think having that solid foundation makes a big difference in the long run.

Dan Kilcoyne [30:49]
I get it, right? If you are not sure if you're going to make this week's payroll, or if you're

not able to physically pay yourself a standard salary, you're looking for any and all ways to cut those costs. If I could go back in time, there is probably some negotiation there, there are some conversations to be had. Because you want a partner that believes in you and the business, right? I think, unfortunately, banks have become a little bit more commoditized now. As long as this box and this box and this box is checked we'll loan you the money. That's not really a partner, you need to align yourself in a way with whatever the services are, right? Accountants, attorneys, banking, where they see the vision, they can understand where you're headed.

You don't want to have to keep going back to that. That was the most frustrating thing. As an entrepreneur, you lay out this foundation, you continue to grow. We're growing at a 30% rate year over year over year, and you're continually going back and having to ask again. That's where you have to find those right partners, you have to have that open conversation right out of the gate, and understand that if it is an investment to your point, make the investment but make sure that it works that you can still pay yourself and pay your team,

Bill Mandia [32:09]
Right, you're looking to avoid, even though they're not partners in the sense that they're not invested in your business enough from an equity basis. You're looking to avoid it, to the best extent you can, people that are just going to be transactional is what I take it and are going to be a little bit more bought into what you're doing and try to help you achieve your goals.

Dan Kilcoyne [32:28]
Exactly. And they are like any industry, there are a lot of people that will gladly take you over. You need somebody with a good reputation and a good track record and that also comes at a cost.

Bill Mandia [32:41]
Well, Dan, thank you very much for your time. This has been a great discussion. I wish you the best of luck going forward. Thanks so much for all your time today.

Dan Kilcoyne [32:50]
Thanks for having me, Bill. I appreciate it.

On behalf of the New Jersey Food Processors Association. We thank you for listening to this episode of the NJFPA Food Forum. For more information, you can visit us at www.njfoodprocessors.org. If you have an idea for a future episode, please email us at help@njfoodprocessors.org. We would love to connect with you and make your story and your experience part of this series too.