

March 30, 2007

## This Family's Hot Stuff

By KRISTINA SHEVORY

EVERY ISLAND, La. In April, board members and shareholders of the McIlhenny Company plan to gather here for their annual meeting. Unlike well-publicized events at big public companies this year, where activist shareholders often hope to create a stir, a private gathering is planned, and the agenda will probably not be debated. The meeting promises to be what it always is: one part business and one part family reunion.

Food is on the menu, and plenty of it: Cajun specialties, like boudin, corn-and-crab bisque and crawfish pie. There will be sweet tea, soda pop and bloody marys. And on every table, there will probably be all six flavors of Tabasco sauce. But for the McIlhennys, this is no idle condiment to spice up bland food. This is business.

The McIlhenny Company, the maker of Tabasco, is one of the country's biggest hot sauce makers. Its fiery condiment has become so popular that its name is a generic term for hot sauce. Less known is that the family has weathered storms, both personal and economic, to keep the business going since its founding more than 130 years ago.

Now in its fifth generation as a family-run business, the McIlhenny Company is operated by an eight-member board that is largely part of the extended family. All of the 145 shareholders either inherited their stock or were given it from another living family member.

But in practice, only two to four family members typically run the company because it is so big and the family does not want it to become insular and resistant to change. They make sure decisions are transparent and issue financial statements every quarter to their shareholders.

★ "They have a good process for how they make decisions," said Ann M. Dugan, executive director of the Institute for Entrepreneurial Excellence at the Joseph M. Katz Graduate School of Business at the University of Pittsburgh. "They've taken the emotionality out of it. Once you get into the third and fourth generations, you're looking at cousins with different experiences and family. It's easier to become factionalized."

Even so, emotions ran high when the family faced its biggest crisis in recent memory. That occurred in the midst of the devastating storms in 2005, but not from Hurricane Katrina, which wreaked havoc on nearby New Orleans, but from the storm that followed.

The McIlhenny family knew Hurricane Rita would bring high winds and rain to southern Louisiana. They had heeded an evacuation order and had a volunteer crew of workers in case something went wrong. They assumed Avery Island, one of the highest points along the coast and home to their Tabasco sauce, would be fine.

They were wrong.

The day Rita made landfall, a guard called at 8 a.m. and said water was rising quickly. Everyone on the island raced over to the low-lying factory to see what they could do. The sight gave them pause.

Water was starting to cover the main road leading to the factory and was gaining ground quickly. Employees jumped on forklifts to move some of the barrels of hot sauce onto pallets to give them a few inches off the ground. Others ferried computers to the main office up the hill. The low-lying pepper fields were underwater and white caps dotted the surface. Two hours later, the water was four inches from the factory floor.

And then it stopped. At 9 feet 8 inches, it was nearly double the highest flood level anyone could remember.

While the factory was saved by mere inches, the family lost some of its pepper plants, a gatehouse and six days of bottling to the storm.

"When you live on the highest point in the area, you just don't think flooding is going to be an issue," said Harold G. Osborn, a cousin and vice president of agriculture.

The family was left with a tough choice to make.

It had planned to build a museum and culinary center in New Orleans, where many family members live and where Tabasco was first sold. After Katrina hit on Aug. 29, the company lost the contractor for that project.

In early January 2006, they were trying to get new bids on construction. But costs had risen so much that they decided not to proceed. "We hate it," Tony Simmons, executive vice president and a family member whose business card is a miniature Tabasco bottle, said of the decision.

Instead, the family plans to spend \$5 million on something far more urgent: a 17-foot levee on Avery Island and a back-up generator. Construction should begin by April and be ready in time for the 2008 hurricane season.

"Never say never, but we don't think we can get a storm surge past that," Mr. Simmons said.

Since it started making hot sauce in 1868, the McIlhenny Company has faced various crises, both personal and economic, to keep the business going. First there was the challenge of starting a self-named company after the Civil War, then building Tabasco into a recognized brand and finally maintaining its popularity despite an abundance of competitors.

The McIlhenny Company is now one of the country's biggest hot sauce makers and turns out as many as 720,000 two-ounce bottles every day. Its slender glass bottles are found in soldiers' rations, restaurant tables across the country and in 161 countries, according to the company.

"What makes Tabasco as a brand great is that the family continues to deliver," said David Martin, president of United States operations for Interbrand, branding consultants in New York. "It always tastes the same, has the right degree of spice and flavor. You can always count on it."

Consumers must agree. Around 62 percent of Americans had hot sauce in their pantry in 2005, according to the most recent data available from the NPD Group, a research and consulting firm in Port Washington, N.Y.,

versus 57 percent in 1999.

To stay ahead of its competitors and expand valuable supermarket space, the company has been rolling out new pepper sauces with jalapeños, habaneros and chipotles one of their best sellers over the last 13 years. They recently released a new sweet-and-spicy sauce in seven markets.

Paul McIlhenny, the company's chief executive, has entered into licensing deals to add Tabasco to Spam, steak sauce and mayonnaise and ramped up the business with the food service industry, which now counts for more than half of sales.

"What impresses us the most is that they keep bringing out new sauces," said Gretchen VanEsselstyn, editor in chief of Chile Pepper magazine in New York. "They're really trying hard to be more than a one-trick pony."

For all the variation, the family has stuck to the same basic recipe peppers, salt and vinegar and production techniques since its beginning. After the Civil War, Edmund McIlhenny experimented with growing peppers on Avery Island as a way to spice up his food, said Shane K. Bernard, the company's historian and curator. They still follow Edmund's growing instructions and use seeds from the original plants.

Most of the peppers are now grown in Latin America they ran out of room here in 1965 and started experimenting with plants in Mexico but all the seeds are still grown on the island. While different climates and soils affect a pepper's heat level and flavor, the McIlhenny Company blends them in the final product so the taste remains familiar.

When the peppers are harvested, they are shipped back to Avery Island where they are ground into mash. Salt is added and the mixture is put into old whiskey barrels from distilleries like Jack Daniels and Jim Beam to age for up to three years. (The bright red mash is so corrosive that forklifts last only six years.) After three years, a family member samples the mash and, if approved, it is mixed with vinegar and stirred for one month. The seeds and skins are then removed and the sauce bottled.

The family has not tweaked Tabasco to shave expenses or lower prices because they make money from more than just the sauce. On Avery Island, a 2,200-acre salt dome west of New Orleans, they mine rock salt, pump oil and natural gas and operate Jungle Gardens, a botanical garden. They also reuse everything, from selling their used oak barrels to selling the seed mash to a company for use in candies.

"The family has the good fortune to have an island made of oil and salt, with constant revenues, and has not had to follow the fortunes of family businesses that depend on one product," Richard Schweid, the author of "Hot Peppers: The Story of Cajuns and Capsicum," wrote in an e-mail message. "This has meant they could reject alternative practices with Tabasco sauce that would mean less quality and more savings."

Avery Island has also helped keep the family together because it is more than just a place where Tabasco is made. It is also home. Many family members grew up working summers on the island, from picking peppers to operating the company's general store. Many still spend their weekends here. Before they joined the company, Mr. Osborn was a civilian military contractor and Mr. Simmons was a construction crane supplier.

They have ideal commutes: both live on the island. Half of their 200 full-time employees do, too. The

company has 40 part-time workers. Around 80 clapboard homes for employees dot the island, a holdover from the days when most people didn't own cars and traveling to remote Avery Island was difficult. (The family leases the homes to workers.) Many of the employees' parents and grandparents worked on the island and many still send their children to the island's elementary school.

"Everyone here could leave and work in the oil industry and make twice the money, but why?" said Kip White, 28, a third-generation employee. "We have a good time, and we're like family here."

And it is likely to stay that way. Every once in a while, the family is approached to see if the company is for sale, but the offers have never been serious enough to bring to shareholders for a vote.

"As long as we can grow the business profitably and with dividends," Paul McIlhenny said, "then the *family* will be happy."

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