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Exports help Otis Spunkmeyer make more dough

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Cesar Lopez adds ingredients to a vat filled with cookie dough at the Otis Spunkmeyer factory in San Leandro. Exports account for 10 percent of the company's sales. Credit: Paul Chinn / The Chronicle



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Raw frozen cookies tumbled into plastic-lined boxes on a recent morning at the Otis Spunkmeyer factory in San Leandro, which is one of 22 U.S. firms honored by the Commerce Department for their export success.

"We're found in 80 countries around the world," said John Schiavo, president of the 33-year-old company that employs about 1,350 people at four plants.

Exporters are getting more attention in light of President Obama's goal of doubling U.S. sales abroad to help close a huge trade gap and create jobs at home.

But the trade picture worsened in June, when the Commerce Department said exports fell 1.3 percent to \$150.5 billion, while imports rose 3 percent to \$200 billion.

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The \$50 billion monthly trade deficit, the biggest such gap in nearly two years, shows how far the nation is from achieving Obama's goal.

With studies suggesting that only 1 percent of U.S. firms sell abroad, Commerce websites like BuyUSA.gov help would-be exporters crack foreign markets, while its awards programs identify best practitioners as role models for other firms.

A visit to Otis Spunkmeyer reveals some of the factors behind the company's export drive and

illuminates an economic concept called comparative advantage that explains why cookies made in the East Bay can compete globally.

Started 2 decades ago

Schiavo said Otis Spunkmeyer got started in exporting about 20 years ago when it opened a division in the United Kingdom and began learning the idiosyncrasies of foreign markets, such as the fact that European countries generally don't allow the use of the vitamin-enriched flours commonly found in baked goods here.

But its current export push really started more recently.

"A couple of years ago, some of our largest customers were expanding internationally and we followed them," he said.

Otis Spunkmeyer cookies are meant to be baked fresh in ovens that the company supplies to its customers, who are well-known food service operators. As client firms like Aramark and Sodexo increased their global markets, Otis Spunkmeyer tailored its ingredients and recipes to meet foreign tastes and regulations.

At the same time, Otis Spunkmeyer experienced a jump in sales to U.S. troops in Iraq and Afghanistan, for whom a freshly baked chocolate chip cookie or muffin represented a little taste of home.

Schiavo said the results caught the Commerce Department's attention, as exports rose from about 1 percent of company sales in 2000 to 10 percent today. Success has only whetted his appetite for expansion.

"We believe cookies can be sold anywhere in the world," said Schiavo, who considers nearly 100 factors in deciding whether to customize the company's recipe and ingredients to meet the demands of a given market.

Schiavo said the San Leandro firm can compete globally because labor represents less than 20 percent of the cost of the baked product, with most of the rest going for materials - flour, butter, sugar, nuts and chocolate.

"We buy 225 million eggs a year," Schiavo said, explaining that the ability to buy ingredients from the huge and efficient U.S. agricultural supply chain gives his firm the economies of scale that enable him to compete with any producer in the world.

Other Bay Area exporters have found the same comparative advantage from the confluence of high-quality, low-cost agricultural products and a trend-setting reputation.

"California has something very few places around the world have: the mystique of being an agricultural gem state," said James Geller of Burlingame's Geller International, which exports products from Saags Specialty Meats & Sausages, Petaluma Poultry, Clover Stornetta dairy and Harris Ranch, among other brands.

In 2008, California agricultural exports hit \$12.9 billion, according to the UC Agricultural Issues Center. That was about 10 percent of the state's total 2008 exports of \$123.7 billion, according to Jock O'Connell, a trade expert with Beacon Economics.

O'Connell said food exports are likely to continue to grow as the world economy recovers.

But trade is fraught with peril and unexpected barriers do arise.

For instance, Geller said contacts in Asia have told him that several thousand refrigerated meat containers are being held up by Vietnamese authorities in Haiphong, while thousands more are being detained in Hong Kong for reasons that are unclear.

Problems in Asia

The U.S. Trade Representative's Office and the Foreign Agricultural Service of the U.S. Department of Agriculture both told The Chronicle they've heard nothing of this. But the Vietnam Seaports Association mentioned the holdup in a recent online posting that said "the importing countries were concerned about disease outbreaks."

So far, said Schiavo, Otis Spunkmeyer has encountered no such glitches.

E-mail Tom Abate at tabate@sfchronicle.com.

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