

## **HUY FONG FOODS' SRIRACHA: IRWINDALE TURNS UP THE HEAT**

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***“Sriracha may not be welcome in California,  
but you’d be welcome with open arms and eager taste buds in Texas.”***

Senator Ted Cruz (R-Texas).<sup>1</sup>

In 2016, the city of Irwindale, California filed the second lawsuit in two years against Huy Fong Foods, manufacturer of the famous Sriracha hot sauce. Huy Fong Foods countersued, claiming that the city had embarked on a campaign of harassment against the company. The interests of the company and those of the city appeared to be profoundly incompatible. David Tran, founder and CEO of Huy Fong Foods, concluded that Irwindale was “*openly hostile*” to Huy Fong Foods’ business interests.<sup>2</sup> Tran was considering the merits and inconveniences of relocating his factory after having invested more than \$50 million in Irwindale. To make matters more complicated, in August 2017, Huy Fong Foods sued Underwood Ranches, the company that had supplied its chili peppers for over 30 years, alleging breach of contract and civil theft. According to the lawsuit, Underwood Ranches refused to return to Huy Fong Foods over \$1.4 million in overpayments and to return \$7 million in equipment.<sup>3</sup>

Huy Fong Foods was established in 1980 by David Tran, who left Vietnam a year before as a refugee on a ship called the Huey Fong. Eventually, he settled in Los Angeles, where he began to fill bottles of hot sauce by hand. Sales grew quickly and in 1987 Huy Fong Foods opened a processing plant in nearby Rosemead, California.

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By 2012, the Rosemead plant was too small to meet demand, and Huy Fong Foods moved operations to a brand new, custom-designed 650,000 square foot plant in Irwindale, California. The city of Irwindale and the company entered into an agreement that David Tran called *“attractive and irresistible,”* and the city called a *“redevelopment success.”*<sup>4</sup> In 2017, the company sold more than 35 million bottles of hot sauce, bringing in revenues of \$109.3 million. One could find a bottle of Sriracha in 9% of U.S. households - and if the head of the household were younger than 35 years old, that number jumped to 16%.<sup>5</sup>

Soon after the opening of the plant, residents of Irwindale started to complain about the strong chili odors emanating from the factory. Some claimed the chili caused irritation to their eyes and throats. They claimed that the smells made them cough, made it difficult to breath, and gave them headaches and bloody noses. Others said that because of the odor they had to curtail outside activities severely - especially for their kids. One went so far as to move away to seek relief from the odors. Because of the complaints, the city of Irwindale took legal action against Huy Fong Foods and even considered officially declaring the company a “public nuisance.” Two years later, the city filed a second lawsuit against the company; and this time the company countersued, claiming that the city had engaged in campaign of harassment.

David Tran simply didn’t understand what the fuss was all about. *“I work face to the chili for 34 years, why am I still there? Maybe I should have died already,”* he commented.<sup>6</sup> The move to Irwindale no longer seemed *“irresistible.”*

Representatives from 12 states and several cities in California courted the company, and invited Tran to relocate, with promises of pro-business environments. The most aggressive suitor was the chili-growing, business-friendly state of Texas. Should David Tran consider moving elsewhere in California or perhaps to Texas? Was there a place where nobody would complain about the smell of chilies? And what about the company’s relationship with Underwood Ranches? Huy Fong Foods demanded that Underwood allow it to take possession of its equipment, but instead Underwood was holding Huy Fong’s equipment hostage.<sup>7</sup>

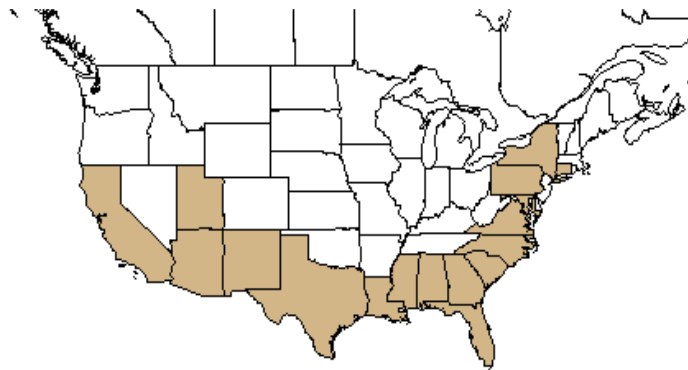
## The U.S. Hot Sauce Industry

In 2017, total revenue of the U.S. hot sauce industry was \$1.4 billion. The industry's profit reached \$83.6 million.<sup>8</sup> Immigrants, especially Asians and Hispanics, had introduced new spicy food choices to the American palate. Strong demand from consumers, restaurants, food services, and grocery stores for spicy products resulted in an expected growth rate of 3.8% annually until at least 2022.<sup>9</sup> Not only was domestic demand strong, but exports from the U.S. to other countries were increasing more than 4% per year. Inevitably, new competitors (domestic and foreign) would enter the industry as more and more American consumers purchased hot sauce on a regular basis.

In the U.S., hot sauce manufacturers were typically located near pepper suppliers to keep shipping costs low. (See Exhibit 1, Where the Peppers Grow.) While hot sauces were made with many different ingredients such as habanero peppers or wasabi, most had as the main ingredient the *capsicum annum* fruit, which included jalapeños, cayenne peppers, and other chili peppers. Mexico was both a source of fruit and the home of hot sauce manufacturers such as the Jose Cuervo Company, which made Cholula hot sauce for both the Mexican and U.S. markets.

### **Exhibit 1. Where Peppers Grow: *Capsicum Annum* in the Continental USA**

Source: U.S. Department of Agriculture, <https://plants.usda.gov/core/profile?symbol=CAAN4>



The Scoville scale, developed by Wilbur Scoville in 1912, was the industry standard for determining the heat level of different products.<sup>10</sup> The scale was based on the amount of capsaicin in a sauce, the chemical compound found in peppers, producing a burning sensation when consumed by humans.<sup>11</sup> Based on the Scoville scale, hot sauce products were classified from mild to medium to hot (See Appendix A).

### ***Mild***

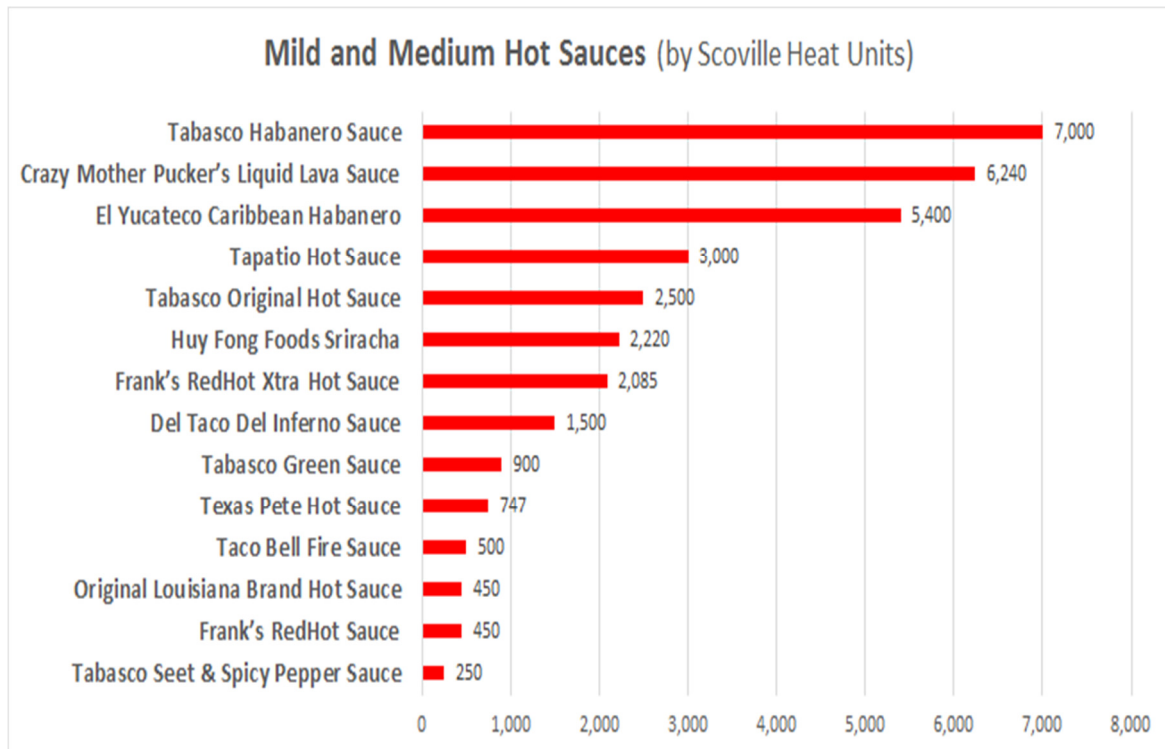
This category included products below 2,500-heat level based on the Scoville scale. Huy Fong Foods estimated its Sriracha sauce had a heat level between 1,000 and 2,500 units. Mild chili-type sauces represented about 58.5% of the total industry revenue. Demand for mild hot sauces had been falling for the past five years but mild was still expected to remain the largest segment of the market.

### ***Medium***

This category included products between 2,500 and 7,000 on the Scoville scale, and accounted for 25% of total revenue of the industry. This segment of the market had been growing for the past several years. Tabasco Original Hot Sauce was rated between 2,500 and 5,000 on Scoville scale.<sup>12</sup>

### ***Hot***

The hot category included sauces over 7,000 on the Scoville scale. This segment generated about 16.5% of the industry's revenue. Sauces such as Tabasco Habanero Sauce, also by McIlhenny, and Satan's Blood, by Sauce Crafters, Inc., were considered in this category. Although this category had increased its share of revenue in past five years, it was not expected to continue to grow significantly, as it targeted a limited segment of the market.

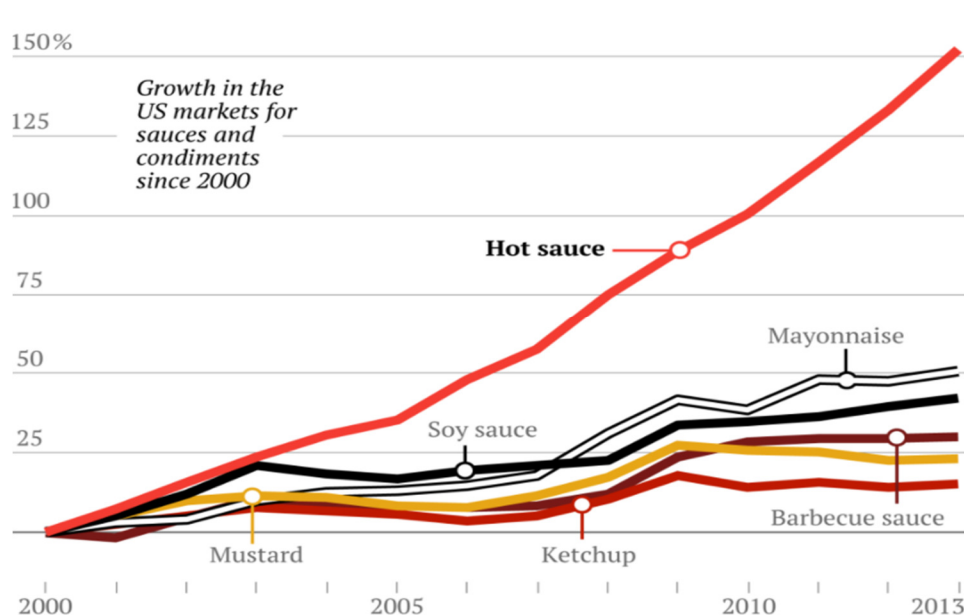
**Exhibit 2. Heat Units of Selected Mild and Medium Hot Sauces**Source: The Official Scott Roberts Website <http://www.scottrobertsweb.com/>**Competition**

U.S. hot sauce sales had far outpaced sales of other sauces such as mustard, soy sauce, ketchup, mayonnaise, and barbecue sauce (See Exhibit 3). Sales were expected to climb from 2017 to 2022 by 3.9% annually, and the number of firms in the industry was expected to increase.<sup>13</sup> Total revenue for the industry was \$1.4 billion in 2017, with about 8% of U.S. demand (\$244 million) satisfied by imports. Overall, profit (measured as earnings before interest and taxes) for an average operator was 6.1% in 2017, a marginal increase from the 6.0% in 2012. While the major segment of the U.S. market would remain in the hands of established products such as Tabasco, Frank's RedHot, Texas Pete, Huy Fong Foods' Sriracha, and Tapatio, small firms with niche targets and low profit margins were anticipated to enter the market and eventually decrease the average profit margin. Exhibit 4 provides key ratios for the U.S. hot source industry.

Due to the increase in the number of brands in the U.S. market, and competition from imports, companies attempted to differentiate their products from competitors' to grab consumers' attention. In venues such as The New York City Hot Sauce Expo, held for the first time in 2013, hot sauce makers not only promoted different levels of heat, but also offered unusual tastes such as chipotle, horseradish, mango, or chocolate. New products were expected to fuel increased demand in both the domestic and international markets.

### Exhibit 3. U.S. Sauce Market Growth

Source: Quartz (2014), <https://qz.com/171500/the-american-hot-sauce-craze-in-one-mouth-watering-chart/>



### Key Success Factors

Industry analysts indicated that several factors explained success, including the following:<sup>14</sup>

- **Brand Recognition.** Brand recognition was vital, because many consumers would simply opt for the hot sauce type that they knew best.
- **Customer Loyalty.** Consumers had a high allegiance to one particular brand, and many rarely strayed from a product they already enjoyed.
- **Wide product range.** By offering a wide range of flavors and heat-levels, industry players maximized their chances of appealing to a broad base of buyers.

- **Distribution network.** Access to a large (and ideally growing) base of potential domestic and international customers was critical.
- **Economies of scale.** Large manufacturers were able to use economies of scale to produce and sell large quantities of products at a lower price per product.
- **Reliable inputs.** Reliable contracts with suppliers of key raw materials – particularly fruit - considerably reduced supply volatility.

#### Exhibit 4. U.S. Hot Sauce Industry Key Ratios

Source: IBISWorld industry report OD4627, January 2017

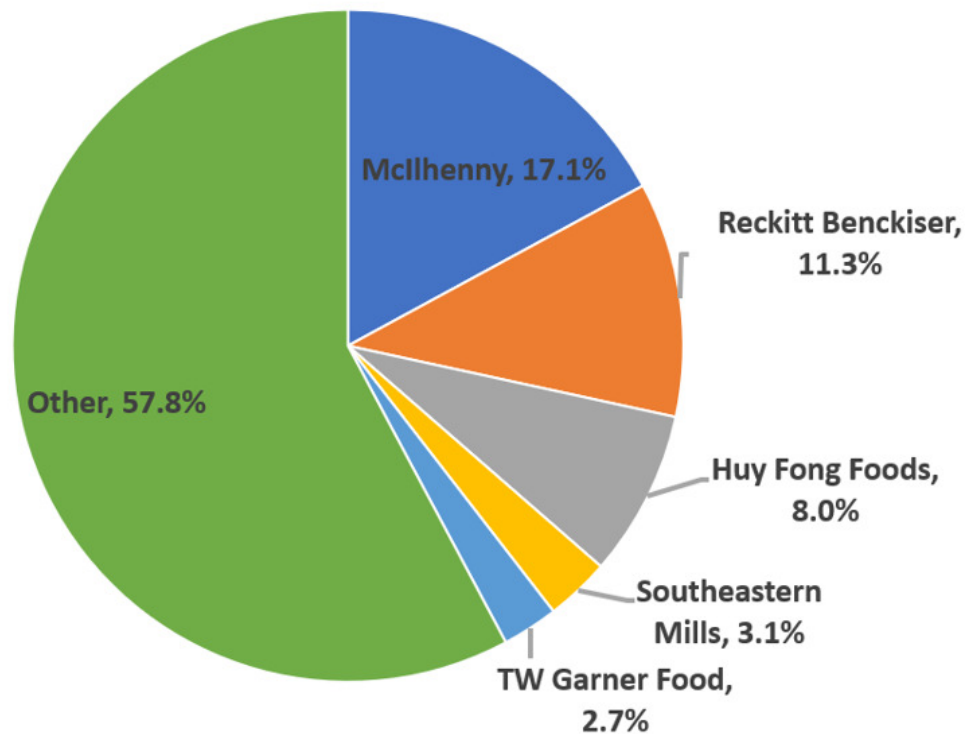
Year	Revenue (\$m)	Enterprises (units)	Employment (units)	Exports (\$m)	Imports (\$m)	Wages (\$m)	Domestic Demand (\$m)	Consumer spending (\$b)
2008	1,080.80	140	2,059	73.1	59	99.6	1,066.70	10,007.20
2009	1,176.70	150	2,125	75.1	59.1	102.8	1,160.70	9,847.00
2010	1,091.80	151	2,040	76.6	57.7	99	1,072.90	10,036.30
2011	1,134.10	163	1,978	81.5	62.1	95.8	1,114.70	10,263.50
2012	1,239.70	175	1,800	89.9	65.7	89.4	1,215.50	10,413.20
2013	1,240.80	184	1,853	102	68.8	93.1	1,207.60	10,565.40
2014	1,256.60	194	1,906	124.2	79.3	97.4	1,211.70	10,868.90
2015	1,273.30	201	1,842	133.2	82.6	103.5	1,222.70	11,214.70
2016	1,314.30	206	1,874	138.1	91.2	109.5	1,267.40	11,518.90
2017	1,369.90	216	1,945	146.5	91	114.2	1,314.40	11,808.40
2018	1,425.80	222	2,002	168.2	99.2	118.2	1,356.80	12,070.80
2019	1,507.90	235	2,097	187.3	99.5	124.8	1,420.10	12,475.80
2020	1,553.70	242	2,147	209.1	109.2	128.3	1,453.80	12,675.90
2021	1,598.90	253	2,210	227	111.1	132.4	1,483.00	12,871.00
2022	1,653.60	262	2,268	254	124.6	136.6	1,524.20	13,119.90

### Competitors in the Hot Sauce Industry

The major players in the hot sauce industry were McIlhenny Company, Reckitt Benckiser, Huy Fong Foods, Southeastern Mills, and TW Garner Food. (See Exhibit 5.)

#### **Exhibit 5. Major Market Share in Hot Sauce Production Industry**

Source: IBISWorld.com (2017), IBISWorld industry report OD4627



#### ***McIlhenny Company, market share 17.1%***<sup>15</sup>

In the 1860s, Edmund McIlhenny created a hot sauce. When his family and friends responded positively, he started a company in 1868 on Avery Island in Louisiana. McIlhenny sold his first batch of 658 bottles at one dollar a piece to local groceries and labeled the product “Tabasco.”<sup>16</sup> In 1870, McIlhenny patented Tabasco sauce and started to sell it in the U.S. and England.<sup>17</sup> In 2017, manufacturing and packaging of Tabasco was still carried out on Avery Island with its 200 staff, while peppers were sourced from about 2,000 farms in Guatemala,



Honduras, Nicaragua, Panama, Colombia, Peru, Ecuador, Zambia, Zimbabwe, Swaziland and Mozambique.<sup>18</sup> Tabasco was sold in 180 countries; the company claimed that it was the most popular pepper sauce in the world.<sup>19</sup>

In 2017, Tabasco sauce came in twelve flavors: original red sauce, green jalapeno sauce, chipotle pepper sauce, buffalo style hot sauce, habanero pepper sauce, garlic pepper sauce, sweet & spicy sauce, sriracha sauce (launched in 2014<sup>20</sup>), original red miniatures, roasted pepper sauce, family reserve pepper sauce, and raspberry chipotle sauce.<sup>21</sup> Beside Tabasco sauce, the company created different food products based off Original Tabasco sauce, such as cocktail mixes, marinades, condiments and snacks. The McIlhenny Company had partnered with food manufacturers to bind Tabasco sauces with variety of food products, such as Tabasco-flavored Slim Jims, Cheez-its, Peanuts, and SPAM.

While Tabasco sauce was traditionally sold in small bottles, it was also available in five-gallon, 55-gallon, and 330-gallon containers. Left-over pulp and seeds from the sauce-making process were sold to other vendors. Tabasco sauce was included in MREs (meals ready to eat) issued to overseas U.S. soldiers.

In 2011, the McIlhenny Company changed its advertising agency from Tracy Locke Dallas, which had served the firm for more than 20 years, to Ogilvy West in order to adopt contemporary advertising methods, such as Facebook. In 2012 McIlhenny spent more than \$3 million to introduce its new Tabasco flavor, Buffalo Style, on a campaign initiated by Ogilvy West.<sup>22</sup>

The company's Avery Island facility has a production capacity of roughly 700,000 bottles per day. Since Tabasco was well established in the U.S. market, strong export sales had been the key driver of growth over the past five years. Revenues in 2017 were nearly \$235 million. McIlhenny generated an estimated 40% of its annual net sales from exports. In addition to expanding its presence outside of the United States, the company had maintained its share of

the domestic market by introducing new Tabasco varieties and focusing on the food service market.<sup>23</sup>

### ***Reckitt Benckiser, market share 11.3%***<sup>24</sup>

Reckitt Benckiser had operations in 60 countries and its products were sold in more than 180 countries worldwide. Frank's RedHot sauce was first produced in 1896. (Durkee Foods, which was acquired by Reckitt Benckiser in 1995, had purchased the brand in 1977.) Reckitt Benckiser produced Frank's RedHot sauce in Springfield, Missouri. Frank's was made in ten flavors, one of which exclusively formulated for food service use. Sales of Frank's RedHot sauce had increased to \$154 million in 2017. Due to Reckitt Benckiser's efficient supply chain, its profit margin was estimated to be 29.2% of total revenue. In addition, the company introduced new flavors and expanded its relationship with several large retail chains, including Sam's Club and Wal-Mart. In 2014, Frank's launched its own sriracha flavor to compete with Huy Fong Foods.

### ***TW Garner Food Company, market share: 2.7%***<sup>25</sup>

The TW Garner Food Company was founded in 1929 and was still run and operated as a small private business in Winston-Salem, NC. In addition to a variety of jams, jellies and other non-industry-relevant sauces, the company produced several flavors of Texas Pete brand hot sauce. Additionally, the company owned the Green Mountain Gringo salsa brand. In late 2013, TW Garner released a new sriracha-style product called Cha! in an effort to capitalize on the partial shutdown of Huy Fong Foods' plant. In 2012, the company began exporting to Canada. TW Garner's hot sauces earned \$37.2 million in 2017.<sup>26</sup>

### ***Louisiana Brand, market share: 3.1%***<sup>27</sup>

Southeastern Mills acquired the Original Louisiana brand hot pepper sauce in 2015 from Bruce Foods Corp. of New Iberia, Louisiana. The Louisiana brand included the following products: the Original Louisiana brand hot sauce, Louisiana wing sauce, Louisiana peppers, Louisiana gold pepper sauce with Tabasco peppers bold flavors, and Red Rooster Sriracha pepper sauce. Red

Rooster appeared to be a copycat product of Huy Fong Foods' Sriracha sauce. Southeastern Mills' revenue from hot sauces in 2017 reached \$17 million.

### Exhibit 6. Financial Performance of the Top 3 Players in the Hot Sauce Industry

Source: IBISWorld industry report. All amounts in millions of \$ U.S.

	McIlhenny		Reckitt Benckiser		Huy Fong Foods	
(\$m)	Revenue	Operating Income	Revenue	Operating Income	Revenue	Operating Income
2012	183.4	43.1	158.2	45.4	50	3
2013	200	43.4	188.2	51	60	4.4
2014	206	44.5	163.1	43.9	80	3.5
2015	211.2	45.4	215.3	62.9	92	6.8
2016	220.7	47.2	160.4	43	101.2	5.6
2017	234.6	50	154.4	40.8	109.3	6.7

### Huy Fong Foods

*"I started making hot sauce when I worked in the kitchen in the Vietnamese army. After the war, my wife brought home a bottle of sauce made by an acquaintance of hers. I tasted it and said: I can make something better than this."*<sup>28</sup>

David Tran

David Tran had started a small family business in Vietnam. His brother grew the peppers, he ground them, and his father-in-law was in charge of washing containers (mostly reused food jars). When Tran's life got more difficult in Vietnam, in 1980 he immigrated to the United States. In 1980, he established Huy Fong Foods and started to sell his hand-made Pepper Saté Sauce door-to-door to Asian restaurants in Chinatown (Los Angeles). In the first month, he made \$1,000 in profit.<sup>29</sup>

The business grew steadily. Although the company continued to increase production every year, demand was much higher than production capacity. Sales grew, and in 2003 Wal-Mart started to sell Sriracha in Los Angeles and Houston, eventually stocking it in 3,000 stores around the United States.

### **Suppliers**

Huy Fong's sole supplier of peppers for almost 30 years had been the Underwood Ranch in Ventura County, California. Underwood was a family farm that grew jalapeño peppers, blueberries, beets, baby carrots, fennel, artichokes, celery root, turnips, rutabagas, parsnips, and other specialty vegetables. In the late 1980s, Craig Underwood wrote a letter to David Tran, proposing the idea of growing jalapeño for him. The two men had never met. Tran agreed to 50 acres worth of jalapeños for the first year. When Underwood delivered the peppers on time and another supplier did not, Tran increased his orders and eventually Underwood became the factory's sole supplier. Huy Fong Foods agreed to partial pre-payment and a guaranteed minimum fee for the peppers, and every year agreed to purchase more. Because of the Huy Fong Foods' contract, Underwood grew to become one of the largest producers of jalapeños in the country. To control labor costs, Underwood introduced mechanical harvesting of jalapeños, using some of its own equipment and other equipment owned by Huy Fong Foods. The farm was able to compete with suppliers in Mexico.<sup>30</sup> In 2015, Underwood grew 2,000 acres of peppers for Huy Fong Foods, who contributed to three quarters of Underwood's revenue. The two parties' agreement each year was partly written, partly oral, and partly established by practice. Craig Underwood remarked:

*"We've developed an incredible relationship. As an example of his trust and faith in us, he rarely comes out to the fields. We give him quality and consistency."<sup>31</sup>*

Following the 2016 harvest season, the two sides could not reach a production agreement for 2017. In August 2017, Huy Fong Foods sued Underwood for breach of contract, accusing it of refusing to give back \$7 million dollars' worth of equipment and demanding a refund of an overpayment of \$1.4 million.<sup>32,33</sup>

## Marketing

Huy Fong Foods' hot sauces were made from fresh, red jalapeño chili peppers with no water or artificial flavors or colors. Sauces were packaged in clear plastic bottles with the rooster logo and a green cap. (The rooster symbol was selected because David Tran was born in 1945, the year of the rooster.)

While food prices had crept up over the 30 years that the company had been in business, David Tran never boosted the wholesale price of Sriracha. Huy Fong Foods' revenue had grown from \$ 38.5 million in 2000 to \$109.3 million in 2017,<sup>34</sup> yet it had done so without the company having spent a penny on advertising. Tran's aversion to spending money to advertise the product was well known, and originated from his experiences in the early days of the company. When he started in Chinatown in 1980, funds were tight; all available cash was used to purchase chili peppers. Tran explained:

*"So the reason why we're not advertising, never advertising [was that] we saved all the money because we just try to get chili, make it, package it, and sell it. If we advertise it, we have no product."<sup>35</sup>*

Beginning in 2014, the company offered tours of the factory and provided T-shirts and sample products to visitors. This promotion cost about \$100,000 per year.

All products were sold either to wholesale distributors or directly to large retail stores, such as Wal-Mart. According to David Tran, the company had never employed a sales representative. Huy Fong Foods had 10 distributors, and the company did not tightly control where the product was sold to consumers. *"We don't have a detailed record of where it's being sold,"* Tran commented.<sup>36</sup> While most distributors concentrated on a geographic region of the U.S. market, some had made forays into foreign markets. For example, C. Pacific Foods of Norwalk, California (a Huy Fong Foods wholesale distributor) had begun sales of the sauce in Vietnam in 2016. In its first year, C. Pacific Foods sold more than 57,000 bottles of hot sauce in David Tran's home country. Vietnamese customers, unaware of the origin of the product, paid about

\$5.00 for a bottle of Huy Fong Foods Sriracha, five times more than what they paid for locally produced chili pepper sauces; it was a luxury food.

Huy Fong Foods made three main chili products (see Exhibit 7). Chili sauces were made of chili, sugar, salt, garlic, distilled vinegar, potassium sorbate, sodium bisulfite and xanthan gum.<sup>37</sup>

**Chili Garlic Sauce** was a blend of coarsely ground chilies and garlic could be complemented everything from a cracker to poultry to soups. This sauce was available in 8 oz., 18oz., and 8.75 lbs. sizes.

**Sambal Oelek** (Ground Fresh Chili Paste) was made of peppers with no other added flavors such as garlic or spices for a simpler taste. This sauce was available in 8 oz., 18 oz., and 8.5 lbs. sizes.

**Sriracha Hot Chili Sauce**, Huy Fong Foods' most popular sauce, was made from sun ripened jalapeño peppers which were ground into a smooth paste along with garlic. This sauce could be used in soups, sauces, pastas, pizzas, hot dogs, hamburgers, chow mein or on anything else. Sriracha was available in 17 oz. and 28 oz. bottles. Sriracha grew in popularity among sushi chefs, who for years had been using it in spicy tuna. **Bon Appetit** magazine named Sriracha the ingredient of year in 2010, and **Cooks Illustrated** called it the best tasting hot sauce in 2012.<sup>38</sup>

Huy Fong Foods' Sriracha had many *very* loyal customers. The first thing one could see in the lobby of the factory was a photo of two astronauts, hovering in zero gravity in the cramped confines of the International Space Station. An arrow superimposed on the photo pointed to a little green plastic cap, the top of a Huy Fong Foods' Sriracha bottle floating in the background. The little green cap was all it took for one fan, who e-mailed Huy Fong Foods to say he had spotted it. Such fan mail was not uncommon.<sup>39</sup>

## Operations

In 1986, Huy Fong Foods moved into his first factory in Rosemead, California, a 68,000 square foot building that previously had been a toy factory for Wham-O, which made Hula Hoops, Frisbees and Slip-n-Slides.<sup>40</sup> By 2009, however, it was obvious that the Rosemead factory had become too small.

Huy Fong Foods employed 70 full time workers year-round and about 200 during chili seasons when up to 40 truckloads of fresh peppers would arrive each day. Peppers were ground the same day that they arrived at the factory. The chilies were harvested in mid-July through October and were driven from the farm to Huy Fong Foods' facility. After grinding, peppers were stored in large plastic bins for use for the entire year's production of hot sauce.

Based on growing demand for Sriracha chili sauce, the company planned a move to increase capacity significantly. Irwindale, California seemed to be the best choice; building a new factory there would solve all Huy Fong Foods' problems of space for manufacturing, warehousing, and even corporate headquarters.

### Exhibit 7. Huy Fong Foods' Sauces

Source: [www.HuyFong.com](http://www.HuyFong.com)



### Irwindale, Sriracha's New Home

Irwindale was a city in the San Gabriel Valley in Los Angeles County, California, about 23 miles from the city of Los Angeles and about 13 miles from Rosemead. Irwindale's population was about 1,500, with approximately 91% Hispanics, 6% Whites, and 2% Asians. The median household income in 2017 was \$45,000, and 12% of Irwindale residents lived below the poverty level.<sup>41</sup> Much of the land (43%) was zoned for industrial sites. The city had about 700 businesses employing 40,000 people. Obviously, the vast majority of employees resided outside the city. The largest employers in 2017 were Ready Pac, the fresh food company (1,700 employees), Charter Communications (970 employees) and several factories including a MillerCoors brewery (750 employees).<sup>42</sup>

Starting in 2009, David Tran had been scouting for a new location where Huy Fong Foods could increase capacity. He met with representatives from the city of Irwindale, which was pursuing an aggressive development plan. Irwindale invited Huy Fong Foods to relocate to the city, and made it the best offer it could. Craig Furniss, a principal at Seventh Street Development, commented on the logic of the move from Rosemead to Irwindale:

*"With many of its employees living in the area, it was important to Huy Fong to stay in the San Gabriel Valley, which has been its home since 1987. Irwindale was one of the few areas able to accommodate and still make financial sense from a development and user perspective."<sup>43</sup>*

The city of Irwindale, in order to attract Huy Fong Foods, offered a 10-year loan of \$15 million dollars for the purchase of 23 acres of land, at a 4.5% interest rate.<sup>44</sup> The loan required payment of interest only with a balloon payment for the principal at the end of the 10 year period. Huy Fong Foods accepted the loan and purchased the land. In October 2010, Seventh Street Development initiated construction of the new \$40 million corporate headquarters, manufacturing, and warehouse facility. The new facility included 26,000 sq. ft. of office space, 150,000 sq. ft. of manufacturing space, and 480,000 sq. ft. of warehouse space.<sup>45</sup>



As part of the development deal, Huy Fong Foods agreed to contribute \$2.5 million dollars to the city in 10 annual payment of \$250,000 per year in lieu of business license fees and development impact fees related to the construction project, including fair share cost for future traffic improvements.<sup>46,47</sup>

The shiny new factory opened in 2011 and created close to 200 jobs in Irwindale.<sup>48</sup> During the chili harvest season, which typically began in late August and lasted through November, the company hired an additional 100 temporary workers.<sup>49</sup>

All parties seemed to benefit from Huy Fong Foods' move to the Irwindale. The new factory produced 3,000 bottles every hour, 24 hours a day, six days a week. In 2017, the factory was working at about 50% of capacity. The city's economic strategic plan called the deal a "*true American success story*,"<sup>50</sup> in part because of the jobs created but also because the land had sat empty after the departure of a gravel pit and asphalt plant.

### Troubles in Irwindale

#### ***State Health Department Requires 35-day Hold***

By California law, uncooked food products needed to be stored for 35 days after production before shipping to customers.<sup>51</sup> The hold was imposed on the company after moving to Irwindale by the California Health Department because none of its sauces were cooked or roasted. (The Rosemead factory had been "grandfathered" exemption from the requirement.) The storage requirement created unanticipated difficulties and costs for the growing company after the move to Irwindale.

#### ***Complaints about the Odor***

In mid-September 2012, some residents of Irwindale started to complain about offensive chili odors emanating from Huy Fong Foods' factory. They claimed that the chili odors caused health

problem and had a negative effect on their quality of life. Irwindale residents made the following comments:<sup>52</sup>

*The odor “causes irritation in my throat, eyes and my sinus area. I have experienced headaches in conjunction with these symptoms which I have tried to relieve with Advil.” - Richard Corpis, Irwindale resident*

*“The odor and fumes cause a severe stinging-type irritation to my eyes, causing them to water and turn red. When I breathe in the fumes I fell as though I’m choking, and I immediately begin to gag. It’s difficult to breathe easily when the odor and fumes are very strong.” - Manuel Ortiz, Irwindale resident*

*“Strong odor would make me cough and I felt the immediate need to drink water....I also felt heartburn after inhaling the strong odor.”  
- Claudia Gallardo, Irwindale resident*

*“Burning sensation in my eyes, nose and chest which would make me feel sick, cough and suffer from heartburn.” - Larry Castro, Irwindale resident*

*“These odors cause a gagging and choking sensation. Although you can smell the chilies, it’s the fumes that affect me ... which feel like vapors entering in my throat and in my nose when I breathe in. I have the sudden urge to cough, like I need to clear my throat.” - Arthur Tapia, Irwindale resident*

Residents also complained about the effect of chili odors on their enjoyment of the outside activities and the use of their properties.

Yolanda Zepeda had to limit her ten year old son’s time for outdoor activities since her son had asthma and the vapors from the facility cause him to cough severely.

Claudia Gallardo stated she had to move her birthday party from her backyard to inside the house and close all the windows to escape the fumes as she and her guests (including children) noticed the chili fumes and started coughing.

Larry Castro, Manuel Ortiz and Claudia Gallardo experienced irritation in their eyes and throats while running, so they could not run outdoors as often as they would have liked to.

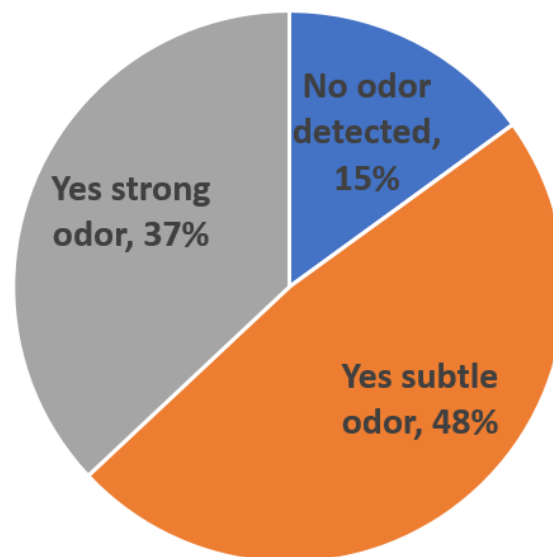
Forty-eight Irwindale residents who lived within a mile of Huy Fong Foods' factory were asked if they detected odors, and if they had experienced any symptoms as a result of those odors<sup>53</sup>. Fifteen percent of the people interviewed detected a strong odor, 48% detected a subtle odor, and 37% did not detect any odor. Six people reported experiencing symptoms as a result of those odors, while 42 people did not experience any. The most common symptoms were coughing and burning of the throat, eyes, nose, and chest. (See Exhibits 8 and 9.)

Some residents, such as Maria, John, and Isabella, claimed that they even liked the smell that came from the factory and it actually made them hungry. Maria had smile on her face and said, *"The smell makes me want to eat some chips and salsa!"*

Other residents who were chatting outside the house shouted, *"The smell is goood!"*

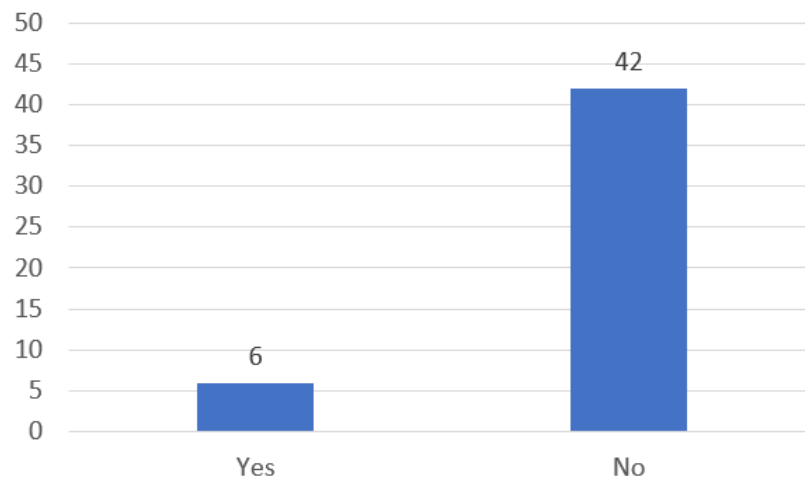
#### Exhibit 8. Can You Detect an Odor from the Factory?

Source: Case authors' interviews of 48 Irwindale residents within a mile of the Huy Fong Foods factory



**Exhibit 9. Symptoms Experienced from Huy Fong Foods' Factory Odor**

Source: Case authors' interviews of 48 Irwindale residents within a mile of the Huy Fong Foods factory



On the other hand, some people experienced health and lifestyle changes that they attributed to the odors coming from the factory. Irwindale resident Yvonne, who lived on lower Azusa Canyon Road, said,

*“My father-in-law used to visit my place until he experienced coughing about two months ago. He already has emphysema and heart problems, so he cannot visit us anymore. Now, I’m visiting him instead. Recently, I’ve been receiving so many phone calls from realtors asking to sell the house. I’m living here for 14 years and this is my first house, so I don’t want to sell it. However, I feel my property’s value is going down because of the odor from the factory.”*

Residents suffering from asthma seemed to experience the most difficulty. Anita, a resident on Fortin Street (a half mile from the factory), explained that one night she could not stop coughing and was forced to use an inhaler. Another resident, Juana, mentioned that although she was not able to smell any odors from her house, the young girl living next door to her was adversely affected by the odors. The girl could not go outside without her asthma flaring up.

Mario, who was walking his dog, explained that the smell was unpleasant to him and that his throat burned sometimes, but did not notice it was related to the factory until his father had brought it to his attention.

Although Jesus had had some difficulties, he did not want the factory to relocate because the community was receiving money and he felt that the facility provided a nice view. Jesus remarked:

*“I used to work for the company that sold salt to the Huy Fong Foods factory in Rosemead. I needed glasses and a mask every time I delivered the salt to the facility because my eyes and nose burned. Sometimes I woke up during the night because of the strong smell from the factory. I cannot leave the window open when I go sleep.”*

None of the people interviewed by case authors had reported any odors or physical symptoms to the city.

### ***Irwindale’s Urges Huy Fong Foods to Resolve the Odor Issue***

Irwindale’s Community Development Director, Gustavo Romo, contacted Huy Fong Foods and asked the company to address the complaints. He also hired Soil, Water, Air Protection Enterprise (SWAPE), a Santa Monica consulting company with local experience with odor mitigation in surrounding jurisdictions. SWAPE was invited to attend a meeting with Huy Fong Foods and city staff on October 1, 2013 in order to provide an expert evaluation of the odor problem.

***First Meeting with the City, October 1, 2013.*** The City Manager, the City Engineer, and Mr. Romo held the first meeting with Huy Fong Foods’ representatives David Tran, Donna Lam, and Adam Holliday and representatives of SWAPE on October 1, 2013. One resident who had complained was also present at the meeting. After a tour of the Huy Fong Foods factory, the SWAPE consultant concluded that the current pleated carbon filtration system was totally inadequate and provided little to no protection against odors and irritating oils produced

through the hot sauce making process. The SWAPE consultant also indicated that odors and oils from the factory would go up in the atmosphere to a height of about 250 feet during the day when the sun was out. But when the temperature dropped, the same odors and oils would only go up about 25 to 30 feet, where they would be subjected to the local breeze and winds. As a result, residents would experience the worst of the odors and associated problems during the evening and early morning hours. At the end of the meeting, SWAPE suggested two solutions to address and solve the odor issue:

- (1) Huy Fong Foods needed to purchase and install a Regenerative Thermal Oxidizer.
- (2) Huy Fong Foods needed to purchase and install a larger external carbon filtration system.

At the meeting, Huy Fong Foods' representatives positively responded to the city's request for a plan to address the odor problem. Huy Fong Foods committed to doing everything possible to resolve the issue, and would even consider hiring SWAPE or another consultant to explore different solutions. The recommended oxidizer and filtration system were later estimated to cost about \$600,000.<sup>54</sup>

***A Change in Plans, October 3.*** On October 3, 2013, Huy Fong Foods informed the City that it had decided to not hire SWAPE or any other consultant. Instead, it would refer the odor issue to the California Air Quality Management District (AQMD). The city emphasized the urgency of the issue, and asked Huy Fong Foods to reconsider SWAPE's recommendations. On the same day, the city hand-delivered a Notice of Violation to Huy Fong Foods. The city advised Huy Fong Foods to take immediate action to develop a plan with short- and long-term solutions to the odor issue. Huy Fong Foods' representative, Ms. Lam, contacted Mr. Romo to confirm the company's commitment to solving the problem and scheduled a follow-up meeting for the next day.

***Second Meeting with the City, October 4.*** Huy Fong Foods representatives had their second meeting with city officials, City Manager Mr. Davidson and Mr. Romo. The city indicated that it

expected a plan to address the odor problem by October 9. The company assured the city that it would hire a consultant.

On October 8, Mr. Tran sent a letter to the city mentioning Huy Fong Foods' commitment to solving the odor problem, however no formal action plan was submitted to the city.

***Third meeting with the City, October 16.*** The City Manager and an attorney for the city had a third meeting with Huy Fong Foods' representatives to discuss the odor issue. At this meeting, David Tran claimed that based on his and his employees' evaluation, there was no odor problem at Huy Fong Foods' facility and that any complaints that made it into the press would simply help him to sell more hot sauce. Tran had decided that corrective action was not necessary. City staff had now met Huy Fong Foods representatives on three different occasions to discuss the need for immediate action. The city concluded that Huy Fong had taken no steps to correct the problem, nor had it submitted an action plan to do so.

***City Council Meeting, October 23.*** At the next City Council meeting, resident Dena Zepeda submitted a signed petition from 18 different household who had experienced symptoms such as eye and throat irritation and headaches because of the chili odors emanating from Huy Fong Foods facility. After the meeting, Huy Fong Foods was informed of the petition and complaints.

***Lawsuit and Injunction, October 28.*** Irwindale filed a lawsuit against Huy Fong Foods and asked for a preliminary injunction immediately prohibiting Huy Fong Foods from operating or using its facility. This was no trivial matter: stopping operations during "grinding season" could jeopardize an entire year's production of hot sauce, and result in a loss of at least \$10 million.

***Injunction Denied, October 31.*** Judge Robert H. O'Brien denied Irwindale's request to temporarily prohibit Huy Fong Foods from operating and set a hearing for November 22 to determine whether the factory needed to be shut down during the company's attempt to fix

the odor problem. As a result, Huy Fong Foods was able to finish processing the 2013 crop of peppers to be used in the whole year's production of sauces.

**Partial Shutdown, November 26.** In the Nov. 22 hearing, the judge had ordered the partial shutdown of the plant starting Nov. 26 to facilitate expert determination of the cause and possible solutions to the odor. Since Huy Fong Foods had already ground the season's peppers, the shutdown and inspection occurred after the pepper grinding was completed.

The South Coast Air Quality Management District (AQMD) of the state of California was asked to conduct testing for pollutants at the factory. Mr. Mohsen Nazemi, AQMD deputy executive director, reported that AQMD inspectors took air samples from inside the plant in the weeks during the mixing process of the hot sauce. Nazemi noted that a carbon filtration system could mitigate the odors, but since the grinding season had already passed, it remained unclear if the odor problem had been resolved. He concluded:

*"We think that a similar type of technology can be used, [but] because they are not doing any grinding, we didn't have the opportunity to measure what type of pollutants are coming off. We believe it might be similar to the mixing operation."*

The South Coast Air Quality Management District was unable to find evidence of an air quality violation that would be harmful, nor was there any evidence that the air quality in the city was getting worse (see Exhibit 10).<sup>55</sup>

**Second Public Hearing, February 26, 2014.** At a second public hearing, the Irwindale City Council heard testimony from several residents who complained about the strong chili odors coming from the Huy Fong Foods factory, as well as from more than a dozen factory employees who implored the council to keep the factory open.

**Factory Open to Public, February 27.** The day after the second public hearing, David Tran opened the doors of his factory to tours by the public for the first time in 30 years, in order to



build positive relations with the community and gather public opinion about the odors emanating from factory. The tour ended with a free mini bottle of Sriracha, as well as a request to fill out a smell survey.<sup>56</sup>

### Exhibit 10. Irwindale Air Quality History by Year

Source: <http://www.homefacts.com>, City of Irwindale

Year	Good	Moderate	Unhealthy
2010	95.38%	4.62%	0.00%
2011	93.73%	6.18%	0.09%
2012	87.78%	12.22%	0.00%
2013	97.25%	2.75%	0.00%
2014	89.07%	10.92%	0.00%
2015	88.93%	10.50%	0.56%
2016	86.17%	13.05%	0.78%
2017	96.92%	3.08%	0.00%

**Public Nuisance?** On April 9, 2014, the Irwindale City Council met once again on the odor issue. The Council had already determined that the odor emanating from the facility could cause health problem for residents. The Council also determined that Huy Fong Foods had violated its contract with the City of Irwindale.<sup>57</sup> It was therefore reviewing a motion to officially declare Huy Fong Foods a public nuisance.<sup>58</sup> (See Exhibit 11 for a definition of Public Nuisance.)

### Exhibit 11. Public Nuisance

Source: California Penal Code 370 PC

California defined Public Nuisance as:

*“Anything which is injurious to health, or is indecent, or offensive to the senses, or an obstruction to the free use of property, so as to interfere with the comfortable enjoyment of life or property by an entire community or neighborhood, or by any considerable number of persons, or unlawfully obstructs the free passage or use, in the customary manner, of any navigable lake, or river, bay, stream, canal, or basin, or any public park, square, street, or highway.”*

In addition to the conclusions of the consulting firm SWAPE that harmful odor levels were found in multiple areas around the city, the Council had the results of a survey of Irwindale residents. Forty percent of residents said that they could identify the smell from the Huy Fong Foods factory, and 16% of them found it harmful.

Nonetheless, the South Coast Air Quality Management District could not find enough evidence of a harmful odor in order to justify issuing a violation. Data provided by AQMD showed that about two-thirds of the 61 complaints had come from just four households in a city of 1,400 residents. Some of the most intensive complaints were from Irwindale City Councilman Hector Ortiz's son, Manuel Ortiz, according to court records.<sup>59</sup>

A map of the neighborhoods surrounding the factory is provided in Exhibit 12, with the letter F indicating the Huy Fong Foods factory and most of the complaints coming from the neighborhood with the letter N.

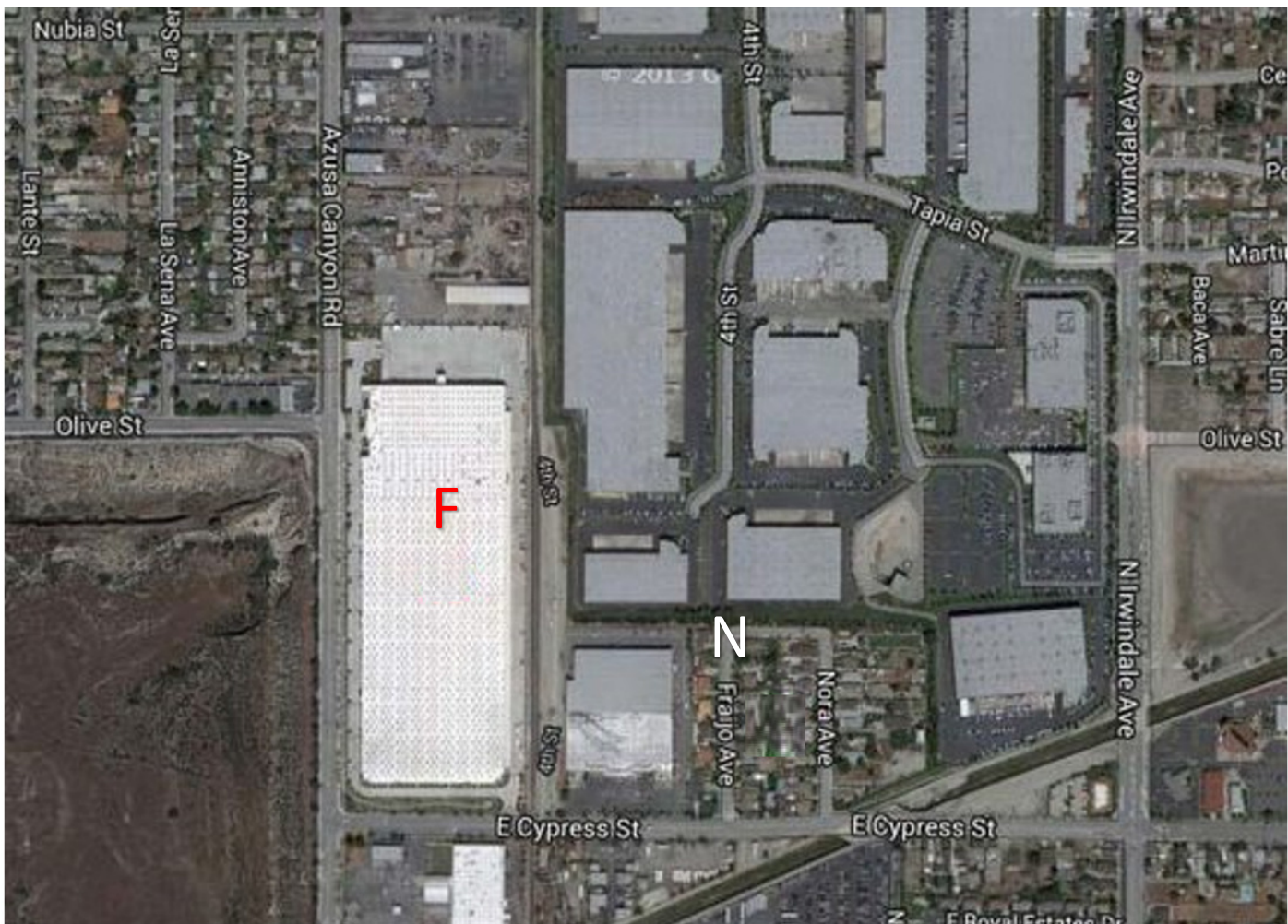
At the April 9 public hearing, new testimony came from local politicians pledging support for Huy Fong Foods. A statement from State Senator Ed Hernandez (D-West Covina) read:

*"I ask that the city of Irwindale reject this inflammatory and unnecessary public nuisance designation and work constructively with Huy Fong Foods to resolve these issues. If not, I'm certain there are a number of cities right here in the San Gabriel Valley who would be happy to have a business like Huy Fong Foods in their community."*<sup>60</sup>

Before the vote to declare – or not – the company all public nuisance, Huy Fong Foods' attorney, John Tate, told the council that Huy Fong Foods would prepare – within 10 days – a timeline to mitigate the odors emanating from the factory. Tate mentioned that the company would be able to fix the odor problem on or before June 1, 2014, before the next chili grinding season (late August).

**Exhibit 12. Locations of Complaining Households in Irwindale**

Source: <http://www.occonnect.com/community/viewtopic.php?t=21596>, Orange County Forums

***Tran Considers Relocation***

David Tran began to consider relocating the factory. Politicians and business leaders in and outside of California offered to host Huy Fong Foods. Tran invited them to tour the factory to see if the odor would be acceptable in their community or not.

A member of the U.S. House of Representatives, Tony Cardenas, visited the hot sauce factory and invited David Tran to relocate the factory to his district in the San Fernando Valley:

*"Why move thousands of miles, when you can keep jobs in California, the state you founded your successful company in?"<sup>61</sup> There are lots of places in SoCal, and Tran provides more than 200 jobs making a nationally and internationally recognized product."<sup>62</sup>*

A coalition of Texas lawmakers visited the factory to present their case for relocation to the Lone Star State. Texas, Rep. Jason Villalba said:

*"As a long-time fan of Sriracha, I am deeply troubled that one of the fastest growing and universally beloved condiments in the world - made right here in the USA - could face such blatant obstructionism by a local city government."<sup>63</sup>*

Texas was aggressively recruiting California companies. Texas had more than \$500 million dollars in an enterprise fund to create incentives for relocating business that would create employment. (See Appendix B for a description of California's and Texas' Incentive Plans for businesses.) *"Sriracha may not be welcome in California, but you'd be welcome with open arms and eager taste buds in Texas,"* Senator Ted Cruz (R-Texas) posted on Twitter.<sup>64</sup> One member of the Texas delegation, Texas state Senator Carlos Uresti, impressed by both the factory and David Tran, expressed his amazement with Irwindale's behavior:

*"It's a fascinating company. You have to step back and scratch your head and wonder why his company is being treated the way it is."<sup>65</sup>*

David Tran decided that he wanted to reduce the leverage the city had over the factory. In 2013, Huy Fong Foods took out a loan from the East West Bank and repaid in full the outstanding balance on Irwindale's loan of \$15 million for the land purchase. This action deprived the city of more than \$650,000 in interest earnings per year. There was also one fewer reason to remain in the city.

### ***Irwindale Drops Lawsuit and Tables Public Nuisance Resolution, May 28***

Both parties agreed to mediation, and the Office of the Governor of California stepped in to help the parties agree on a solution to the dispute. On May 28, 2014, the Irwindale City Council dropped the lawsuit against Huy Fong Foods and tabled the resolution declaring the factory a

public nuisance. City officials noted that Huy Fong Foods had finally made a specific written commitment to solving the smell issue, and City Council members unanimously voted for a motion to dismiss the matter. Glad to put the matter behind him, Irwindale Mayor Mark Breceda concluded:

*“We’re almost sorry that this has gone on so long. We’re looking forward to being partners for a very long time.”<sup>66</sup>*

John Tate, attorney for Huy Fong Foods, mentioned that the council’s decision was not a result of any legal settlement. *“Management met with the mayor, and they had a frank discussion which resulted in a willingness to work together,”<sup>67</sup>* Tate said. City officials said that they would visit the Huy Fong Foods facility at the beginning of the pepper’s harvesting season in the fall. David Tran mentioned that he had made some changes to their filtration system at the Huy Fong Foods plant, and he promised in a letter to the council to fix whatever odor issues the city had identified. Tran’s son-in-law and Huy Fong’s Director of Operations, Adam Holliday, concluded:

*“We are obviously happy with the decision the city made to drop the lawsuit and will continue to make a quality product for everyone to enjoy. We feel confident that the system we have is adequate and we believe that the troubles with the city are over.”<sup>68</sup>*

To all parties, it seemed that the matter had been put to rest, but had the relationship between the city and the company been irreparably damaged? For the next two years, Huy Fong Foods continued to grind peppers and make more and more Sriracha sauce without complaints or incidents.

### ***Back in Court: Suit and Countersuit***

In May 2016, two years after the city of Irwindale had dropped its lawsuit against Huy Fong Foods and suspended its resolution declaring the factory a public nuisance, the city filed another lawsuit against the company. The city claimed that Huy Fong Foods had failed to make

the payments to the city it had agreed to in the development deal; the total amount owed was \$427,086.<sup>69</sup> A journalist for the magazine *Munchies* put it succinctly:

*“Clearly, the city of Irwindale is not as excited as the rest of the world about Sriracha being the biggest thing to happen to hot sauces since the chili pepper.”<sup>70</sup>*

David Tran released the following statement:

*“From the beginning, I offered to contribute \$250,000 per year for 10 years for the benefit of the Irwindale community through the city of Irwindale. But because we had this odor issue where all five of the City Council members unanimously declared us a public nuisance, without real basis, I feel that Huy Fong Foods is being treated unfairly, so I stop the contributions.”<sup>71</sup>*

The city’s lawsuit noted that Huy Fong Foods had made payments on time from 2012 to 2014, but had failed to make additional payments after that date. The city sent the company a notice of default in May 2015.<sup>72</sup> Company and city representatives met and agreed to defer the fourth payment (without late fee or interest) and combine it with the fifth payment by November 23, 2015. The city then informed the company that the sixth payment would be due in January 2017 and all remaining payments would be due in January of each year until the full \$2.5 million had been paid.<sup>73</sup>

In August 2015, Huy Fong Foods delivered a letter to the city saying that it would make no further “contributions” until the city organized a meeting between the company and the complaining residents. The city replied that the payments were not contributions, but instead requirements of the company’s operating agreement.<sup>74</sup> It also wrote that it was open to organizing a meeting between the company and the general public, but that the odor complaints from 2014 were no longer an issue. Irwindale city Attorney Fred Galante explained that although the city wanted to avoid another lawsuit, it had little choice:

*“We [The city of Irwindale] tried to talk to them and we sent them written communication asking them to pay, but they have made it very clear that they will not pay. They hold negative feelings about the lawsuit we were forced to file a couple of years ago.”<sup>75</sup>*

In July 2016, Huy Fong Foods filed a countersuit against the city of Irwindale, alleging that the city had embarked on a “campaign of harassment” against the hot sauce maker, demanding a return of the \$750,000 in fees that, according to the company, it had voluntarily paid to the city. The company also claimed that the fees the city claimed were invalid,<sup>76</sup> and that Huy Fong Foods’ contributions were entirely voluntary. The lawsuit claimed:

*“In the summer of 2014, information was published revealing that [the city] had embarked on a long campaign to impose expensive and unnecessary odor abatement measures on Huy Fong Foods and even to shut down its manufacturing facility. After falling victim to this campaign of harassment at the hands of [the city] ... Huy Fong Foods decided not to make further contributions to a city openly hostile to its business interests.”<sup>77</sup>*

### Moving Forward

David Tran was not convinced that the city had truly put to rest the odor issue. What if residents once again complained? Irwindale City Councilmember Albert Ambriz had remarked,

*“I still feel there’s enough verbal and documentary evidence to constitute this as a public nuisance.”<sup>78</sup>*

Would the problems resurface with the next pepper grinding season? Perhaps some other complaints would surface. Clearly, the honeymoon between Irwindale and Huy Fong Foods was over. Did it make sense for the company to remain in a city where it did not feel welcome? Should David Tran re-consider moving elsewhere in California, or perhaps to Texas? And, to make matters more complicated, Tran also had to deal with his lawsuit against Underwood Ranches, his chili pepper supplier for over 30 years. How would this supply-chain problem affect his California-based hot sauce company?

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**Yang Zhang, Neda Abousaidi, Natsuki Tamekuni, Catherine Gandara, Jackie Shinn, Philip Sanchez and Tommie Gray** earned their MBA degrees at California State University, Los Angeles.



## Appendix A

## The Scoville Heat Scale

Source: [www.chilliworld.com](http://www.chilliworld.com)**Scoville Heat Units Chili Pepper / Hot Sauce**

16,000,000	Pure capsaicin and Dihydrocapsaicin
9,100,000	Nordihydrocapsaicin
8,600,000	Homodihydrocapsaicin and Homocapsaicin
5,300,000	Police grade Pepper spray
4,000,000	Mad Dog 44 Magnum Pepper Extract, from Ashley Food Company, Inc.
2,000,000	Common Pepper spray
1,000,000	Cool Million Pepper Extract, from the Poison Pepper Co.
1,000,000	1 Million Scoville Pepper Extract, from Ashley Food Company, Inc.
800,000	Satan's Blood, from Sauce Crafters Inc.
700,000	The Slap Heard Around the World, from Tijuana Flats
600 - 900,000	Blair's 2 A.M., from Gardner Resources, Inc.
550,000	Blair's Mega Death Sauce, from Gardner Resources, Inc.
400 - 500,000	Spontaneous Combustion Powder, from Southwest Specialty Foods Inc.
350,000	Marie Sharp's Belizean Heat, from Marie Sharp's Fine Foods, Ltd.
283,000	Blair's Possible Side Effects, from Gardner Resources, Inc.
250,000	Vicious Viper, from CaJohns Fiery Foods
234,000	Da' Bomb Ground Zero, from Original Juan Specialty Foods
225,000	Not Cool Chocolate Habanero from Bahama Specialty Foods, Inc.
125,000	Crazy Jerry's Mustard Gas
100 - 350,000	Habanero ( <i>Capsicum chinense</i> Jacquin)
100 - 325,000	Scotch bonnet ( <i>Capsicum chinense</i> )
75,000	Chile-Today Red Amazon Powder
30 -50,000	Lottie's Original Barbados Red Hot
30 - 50,000	Tabasco pepper ( <i>Capsicum frutescens</i> )
15 – 30,000	Lottie's Traditional Barbados Yellow
7,000 - 8,000	TABASCO® brand Habanero Pepper Sauce
5,000 - 10,000	Chipotle, a Jalapeño pepper that has been smoked.
2,500 - 5,000	Original TABASCO® brand Pepper Sauce
2,085	FRANK'S® REDHOT® XTRA Hot, from Reckitt Benckiser Inc.
1,000 - 2,500	Sriracha hot Sauce
1,500 - 2,500	TABASCO® brand Chipotle Pepper Sauce
1,200 - 2,400	TABASCO® brand Garlic Pepper Sauce
747	Texas Pete®, from T.W. Garner Food Co.
600 - 1,200	TABASCO® brand Green Pepper Sauce
450	FRANK'S® REDHOT® Original
100 - 600	TABASCO® brand SWEET & Spicy Pepper Sauce
100 - 500	Pimento
0	Sweet Bell pepper

## Appendix B California vs. Texas in Fight to Attract and Retain Businesses

According to Spectrum, there were 1,669 California disinvestment events, worth more than \$70.5 million, from 2008 to 2015.<sup>79</sup> During that period, roughly 9,000 California companies moved their headquarters to out-of-state locations, including Toyota USA, Chevron, and Nestlé USA.<sup>80</sup> Many of the firms that left California established themselves in Texas (see Exhibits 12 and 13).

The California Competes Tax Credit program was an income tax credit available to businesses who wanted to come, stay, or grow in California. For fiscal year 2017-18, California was accepting applications for up to \$230.4 million dollars in tax credits.

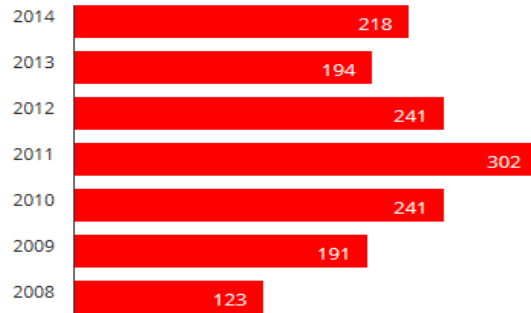
Although Texas gave up more than \$500 million from its Enterprise Fund and hundreds of millions of dollars in local property tax breaks to attract businesses, some Texas legislators had started to question why Texas paid so much to companies that accounted for a tiny fraction of the state's job growth. The policy group Good Jobs First found that the gain of jobs from reallocation to Texas amounted to about 0.03% each year. A similar study by the Public Policy Institute of California found that even when California was losing jobs to other states, those losses amounted to less than 0.1% of total jobs.

California's system was different from Texas' program in some key points. The California Competes program was structured as a tax credit rather than an upfront cash grants. This feature gave California more leverage if companies couldn't come through on their end of agreement. *"We're not writing a check,"* said Will Koch, a Deputy Director who oversaw the program in Gov. Jerry Brown's Office of Business and Economic Development.<sup>81</sup>

**Exhibit 13. California and Texas Business Gains and Losses**

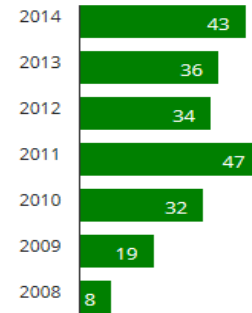
Source: Dallas News, <http://interactives.dallasnews.com/2015/ca-biz-relocation/>

**Calif. business losses by year**



**1,510** total businesses lost

**Texas business gains by year**



**219** total businesses gained

**Exhibit 14. California vs. Texas**

Source: *Forbes* Best for Business, Nov. 2016, [www.forbes.com](http://www.forbes.com)

	California	Texas
Gross State Product	\$ 2,459 Billion	\$ 1,587 Billion
Population	39,250,000	27,862,600
Cost of Doing Business	12.4 % > Nat'l avg.	10% < Nat'l avg.
Forbes Rank, Best States for Business	# 30	# 4
Forbes Rank, Business Costs	# 43	# 4
Forbes Rank, Labor Supply	# 18	# 8
Forbes Rank, Regulatory Environment	# 25	# 45

## Endnotes

- <sup>1</sup> Lovett, I. (2014, May 14). Sriracha Factory Irritates Some Noses, but Entices Politicians. *New York Times*, Retrieved from <https://www.nytimes.com/2014/05/14/us/sriracha-factory-irritates-some-california-noses-but-entices-politicians.html?mcubz=0>
- <sup>2</sup> City News Service (2016, July 15). Sriracha Maker Huy Fong Foods Countersues Irwindale wants \$750,000 back. *San Gabriel Valley Tribune*, Retrieved from <http://www.sgvtribune.com/2016/07/15/sriracha-maker-huy-fong-foods-countersues-irwindale-wants-750000-back/>
- <sup>3</sup> City News Service (2017, August 29). Heating Up: Sriracha Sues Chili Pepper Provider. Retrieved from <http://www.nbclosangeles.com/news/local/Heating-Up-Sriracha-Sues-chili-Pepper-Provider-442189283.html#ixzz4tHA2Mil4>
- <sup>4</sup> LAEDC Working with City of Irwindale and Huy Fong Foods. (2014, April 24). *Los Angeles County Economic Development Corporation*. Retrieved from <https://laedc.org/2014/04/24/laedc-working-city-irwindale-huy-fong-foods/>
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***Journal of Case Research and Inquiry***

Peer-Reviewed Cases, Notes and Articles

A publication of the Western Casewriters Association

Vol. 3  
December 2017

ISSN 2377-7389