

2/1/2016 4:34:00 AM

Vertical integration gives Salcido an edge
'Luck is when preparation and opportunity intersect'



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Editor

Salcido Connection owner Malachi Salcido has taken diversification to extremes in the past three years.

"I think we're past the great recession," he said.

In addition to his original HVAC contracting services, he has added full-service electrical contracting, building control system installation and construction.

"A lot of what we do can be summarized as one-stop shop," he said. "A large contractor or governmental entity or private individual with a large project will come to us and we will engineer the project for mechanical and electrical and then we will help them develop a budget and design it to whatever they can afford and help them phase it in as necessary. And then we install it all. So we end up doing all of those scopes of work."

The more specializations his company can provide, the more work he gets.

He also has formed a sister company, Salcido Enterprises, to manage the data space development of at least two facilities in Chelan County - the old Tree Top facility in Cashmere and space in the Go USA building in Wenatchee. He is working on securing leases on facilities in Douglas and Grant counties as well.

The challenge, he said, is keeping up with the growth. Now with about 50 employees, pretty evenly divided between the three divisions, he is hiring, on average, a new employee every other week.

"We grew about 50 percent in 2015 and are projected to grow 50 percent again 2016," he said. "We went in every direction at once."

When the Wenatchee Business Journal talked with Salcido back in 2009, he had nine employees and his HVAC contracting company had gone in the



Malachi Salcido sees opportunity in diversifying his company to include data space development.
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opposite direction, getting out of the construction business just before the housing bust.

"At that time, there was not a lot of new building, new construction or expansion. The economy was contracting," he said. "We were blessed to have a wide range of service capabilities and a broad customer group that was keeping the lights on and food on the table."

Fast forward to 2016 and he is hopping.

"The learning curve is that each stage of growth requires a different kind of organization," he said. "You can't run the \$1 million to \$3 million business like a startup business. You can't run the \$3 million to \$6 million business like you did the \$1 to \$3 million business. And you can't run the \$6 million to \$9 million business like you ran the \$3 to \$6 million. You end up where we're at now, with multiple layers of management and more specialization of administration."

An example of that, he said, is the need to create a position to handle scheduling.

"I have a full-time equivalent's worth of scheduling - mapping out on a schedule projects and manpower and figuring out how all the different things we're doing fit together," he said. "In renovation and construction, the time frames are always moving. So as they move back and forth, are we undermanned? Overmanned? Where do we have overlaps? That is a full-time person's work to maintain a digital format that is accessible to every employee."

That's a problem he didn't have two years ago. He started thinking about it last year.

"It's a very real problem now," he said. "I have to have that person in the saddle with the learning curve completed on how our specific company operates and mapping out the real time schedule for work and personnel by April or May," he said.

The recovery, from his perspective, started four years ago, he said.

One of the good things about being in the electrical, mechanical and building business is the projects don't go away, he said.

"We do a lot of state and federal work, renovation and expansion," he said. "From 2008 to 2011, they pushed pause on the projects, but the need didn't go away. It's not like they wanted to buy a new coat, but didn't have the money then and now they don't want one anymore. They have to do it. All those needs got released in 2013 and 2014. They're still coming out into the market. That's fueling our growth."

He moved into larger offices at 615 N. Wenatchee Ave., Wenatchee (in the warehouse behind Joe's Log Cabin) about three years ago. His construction crew is working on turning what had been storage space into offices for department managers, which will ease the sardine-like condition of the administrative offices.

While he has been getting into the news because of his challenge to the Chelan County PUD's proposed electric rate on high density load customers, which includes his facilities in the Tree Top and Go USA buildings, not all of his work has been in that blockchain technology realm, though it accounts for a good bit of it.

He also has been busy with more traditional controlled atmosphere (CA) storage facility upgrades and expansion.

Some might call it luck.

"They say luck is when preparation and opportunity intersect," he said. "I can be prepared and well-positioned with great people and expanded competencies. So when opportunity comes, we can take advantage. That's how we've gotten where we are. As we attract the right opportunities, we take the right ones, the right amount of the right ones at the right time."



As an example of that, he mentions McDougall's 1 million-square-foot CA packing facility in Baker Flats.

"We were approached to do a design build project where we create and engineer the solution for a new kind of packing facility with a whole new level of USDA food compliance regulations base. That ended up being a successful project that we had all the abilities to do. That became a calling card," he said.

The Blue Bird project followed.

"It burned down a month after we finished," he said. "Now we're doing the Blue Bird rebuild project, an expanded version of what we had done last year."

They are designing some other specialized large agricultural projects as well.

"We have become the 'go-to' for that scope of work, which is HVAC, air quality for large, specialized ag facilities. "That's an example of preparation and opportunity intersecting," he said.

The listeria outbreak in California created opportunity.

"It created a new level of food safety requirements, all kinds of methods and treatments that weren't on the market before and is now required," he said.

One of those is ozone, which is three oxygen molecules together.

"Ozonated water sprayed on food causes listeria to almost completely stop developing. So ozone generation systems are getting installed in CA and refrigerated storage facilities handling produce, poultry and seafood all over the United States," he said.

Salcido Connection had a partnership with Ozone International, which manufactures ozone generator systems.

"They interviewed several companies and we had all the core competencies they needed - heavy installation experience, a full electrical division and building control contractors," he said. "So they come to us and we install all the systems, all the tubing, all the sampling tubes, the injection tubes for each of the rooms, monitoring devices, Internet connections for remote access."

Salcido Connection installed 422 CA rooms' worth of ozone generator system in 2015 throughout eastern and central Washington.

"We are gearing up to install 400 to 600 rooms worth of CA rooms in 2016. All those expanded competencies led to opportunities and we used all of them," he said. "We had no idea at the time it would lead there."

He ended up in the blockchain technology, data server realm in similar fashion.

"A lot of what we do is design build for a negotiated prices, where we're designing something from scratch. Two or three years ago, individual and businesses were coming from all over the world to this region to develop data space," he said. "That's what freaked out Chelan County PUD, which is why they're talking about the utility rates."

But many of those businesses contacted Salcido Connection for the design work.

"They wanted high density data server locations, but they didn't know what it would take to make that happen. Converting a building is generally less expensive than building one from scratch. So we did design build work on multiple facilities," he said.

When the costs to cover and manage the space were higher than they expected, the plugs got pulled on the projects.

"After we went through that process a couple of times, I realized there was an opportunity. And most of what was needed are the core competencies we already had. It's a lot of mechanical and electrical - a means of cooling and ventilation - and data and networking management. Those are all things we do," he said.

The market is for "low tier, no tier" data space, which is data space without all the bells and whistles, used for data storage and data mining.

"The data storage market is growing exponentially," he said. "Exploding."

The need is to store data.

"Old data needs to be stored. It can't go away, but you don't have to spend the money to put it into conventional data," he said. "So the need is for a reliable, but less costly alternative that doesn't need to be on all the time, on redundant power and two fiber fees. It just needs to be on almost all the the time and accessible secure storage."

Medical records are one example, he said. Block chain technology, or bitcoin mining, is another.

"We made the strategic decision to make a long-term investment in securing space and power and converting those locations to be low tier no tier, high density data storage and mining facilities," he said. "That happened in 2014. That led to a 20-year lease agreement, with first rights to all the power

and our presence at the Tree Top facility."

Salcido knew where the best spaces were because of the studies they had done for companies that ended up not moving forward.

"Tree Top is a moth-balled plan that has relatively few uses other than dry storage. But the bones of the facility, which is massive, are soundly built. It's a great location. It's right by a main power distribution line and we have a portion of the facility under lease now and have first rights to all the facility," he said.

He would like to develop a master plan for the facility at some point that includes building a substation on the property, he said.

"But that's going to depend on how Chelan County PUD chooses to address increased interest in high tech development inside the county," he said.

The 2 megawatt facility, which is primarily used for data mining, has been running for more than a year, he said.

"That's version 1.0. The mining servers are about seven times more dense than traditional data center. There are reasons why you can't just stick them in a traditional data center. One is cost. Two is traditional data centers are not configured for seven times more power and seven times more heat," he said.

Version 2.0 is in the works now, called Columbia Data, which is in the Go USA building on South Wenatchee Avenue.

"We are about 80 percent done with that facility. We should be done in the next 30 days. We have a 28-year lease on that," he said. "We are doing almost 100 percent of the work and it's still costing us millions of dollars to convert these facilities, which is a lot of money. But when you compare it to Sabey Data Center out by Pangborn Memorial Airport, which is a \$150 million project, we've done it at a fraction of the cost of conventional data space."

One decision he made early was to get "vertically integrated" in the buildout of the data server facilities.

"We take the chips and order the boards, plot the wafers, plot the circuitry, mount the chips, custom build the boards, put them on racks and put them on shelves and then operate and manage them," he said. "And that's for a couple of reasons. One, out of necessity. There aren't a lot of reliable partners in the United States.

Two, a lot of large corporations are investigating, doing proof of concept work. We are working with them to figure out how to assemble, plot and manage their internal ledgers and participate in the external ledger, the block chain. So, we expect to be hosting private block chain networks as well as public block chain networks. That's pretty exciting."

And it's another point in his favor.

"We are taking the chip and take it from there," he said, "which is skilled manufacturing."

One of his concerns with the PUD rate proposal is the new rate would increase his major operating expense by 3.3 times.

"No business can take a three-times increase in major operating expenses. Nobody budgets a business plan for that. I plan for a lot of uncertainty - cash flow modeling for years on out. I have a very complete model and relatively few surprises. I did not have a 3-times increase in my major operating expense spreadsheets anywhere, so it blows up my model," he said.

The other concern is it has the potential to dampen the likelihood that investors will commit to projects here.

"Our region is poised to be technology regional hub. There's a lot of conventional data space in the region. Emerging technologies like block chain are drawn to the region. They draw ideas, intellectual capital, investment capital," he said. "My bigger message to the utility is we are smart enough as a group, the public, the utility, private business and individuals, to figure out a way to satisfy the utility's concerns and foster technology based economic development."

The jobs he is creating should mean something, he said.

"The metric we need to get out there is this is way more jobs per megawatt than manufacturing," he said. "Alcoa used 250 megawatts for 450 jobs. I'm creating more than 50 family wage jobs on 4 megawatts. And there's a ton of direct and indirect economic spinoff from that. Data space and emerging technology draws all kinds of spin off support industries, the kind you can imagine and those you can't imagine."

Salcido said he isn't sure where it will end.

"I have no idea how many employees I will have eventually. No clue," he said. "The smartest thing for me is to manage what is happening right now with the contracting and electrical business and with our data space development, and not get ahead of ourselves. Right now our plan is rapid expansion."

But he is taking care.

"I don't have a bunch of someone else's money to spend. I only have my own. I can't just blow it up big and see if it works or not," he said. "I'm not building it to see if they will come. It has to be done in an incremental way so as things change or one sector develops faster than another, you're agile."

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