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Fresh, custom ice cream chain enjoys hot sales, expansion

By Michelle Roberts, Associated Press

SCOTTSDALE, Ariz. — The executives at Cold Stone Creamery were looking to expand their budding chain of ice cream shops in the late 1990s, but when an auto parts businessman from Alaska came seeking a franchise, they were skeptical.

The Scottsdale-based chain had only tried its formula of fresh, custom-mixed ice cream in sun-soaked places like Arizona and California, said Chief Executive Officer Doug Ducey.

The persistent Anchorage resident convinced officials to let him give it a try anyway. The result: the best-selling store during the first 18 months following its 1999 opening.

"We thought it was sunshine or warm weather that sold ice cream, but we found it's just the right people," Ducey said.

The formula — the right franchisees and high-end ice cream — have worked far beyond Alaska for the aggressively growing chain.

Six years ago, the company had around 75 stores. It now has about 1,100 outlets in the United States and Guam, opening an average of one per day. There are seven Cold Stone Creamery shops in Alaska.

Ducey said he expects the fast growth to continue at least through next year. It will make its first significant international move later this year, when a Tokyo store opens.

The company outgrew its headquarters and moved last month to a new two-story building, complete with classroom space and a training store, a lab kitchen for product development and a gym down the hall.

The growth at Cold Stone is happening at a time when analysts say overall ice cream consumption has been flat or down in the United States.

Over the last two years, ice cream sales at grocery stores have been down 6 to 7 percent, said Jerry Dryer, a dairy market analyst. But at the same time, Cold Stone and other players, including Marble Slab Creamery Inc. and Ben & Jerry's Homemade Holdings Inc., are adding shops.

Dryer said cooler summers in some parts of the country and carbohydrate-phobia among some dieters probably hampered sales. But people still eat ice cream, and "the dipping store is the treat kind of thing."

The new generation of dipping shops are selling premium ice cream, and lots of choices. Cold Stone offers 15 base ice cream flavors, ranging from French vanilla and chocolate to more unusual offerings like ginger wasabi and fruit cereal — the flavor of milk left after a bowl of Fruit

Loops. Customers then choose from dozens of different fruits, syrups, candies and nuts that are mixed into the freshly made ice cream on a frosty slab of granite.

After it's mixed, the ice cream is scraped from the stone and put in a foam cup or a waffle cone or cup.

Despite the infinite possible combinations, Ducey said most people develop favorites, and the Cold Stone menu includes some pre-designed suggestions, which are most often ordered by people new to the Cold Stone choices. He said customers get braver with experience.

The average number of "mix-ins" is three, but one customer reportedly managed to get 17 items mixed into a single scoop, Ducey said.

Since each mix-in after the first costs more, Cold Stone customers pay a premium price for a scoop of the creamy confection. A medium-sized portion mixed with three mix-ins in a waffle cone sells for about \$5 — more than a half-gallon tub of ice cream at many grocery stores.

"I'm surprised you didn't ask about the price," said Carol Vance, when asked about her twice monthly habit of eating coffee ice cream with fudge and almonds at Cold Stone.

She and her husband experienced a little sticker shock when they made their first visit, and yet, they still go regularly, she said. Vance buys ice cream from the supermarket, but that's for her sons. "I don't eat (ice cream) at home. This is a treat," said the 40-year-old from Yuma.

Cold Stone's high-end product with rapid growth in a relatively stagnant food segment has drawn comparisons to Starbucks Corp., the phenomenally growing company that made \$4 coffee drinks routine for legions of people.

Ducey, a former Proctor & Gamble sales manager who came to Cold Stone in 1995 and became CEO in 2000, said the comparison is flattering, and his ambitions for the franchise include making it the best-selling ice cream brand by the end of 2009.

The company can do that, he said, by continuing to offer fresh ice cream, plenty of choices and the experience of seeing ice cream orders custom mixed.

"What is the secret ingredient? The conclusion I've come to is the totality of what we're doing," Ducey said.

But Cold Stone isn't alone in making big plans.

Marble Slab, a Texas-based chain with an operation similar to Cold Stone's, has 350 stores and 135 in development, said Chris Dull, vice president of development for Marble Slab.

And Ben & Jerry's, probably better known for its whimsically named pints sold in supermarkets, has about 440 scoop shops in the United States and is growing at a pace of 100 per year, said Will Patten, director of retail operations for the Vermont-based company.

Harry Balzer, a food analyst for market researcher NPD Group, said because ice cream represents such a large market, there is room for new players to grab marketshare even if the category is stagnating overall.

"You are not talking about a niche," he said. "There's room to grab market share."