

*The Arizona Republic*  
January 11, 2004

## Scooping them in

*Cold Stone Creamery, a hot spot for ice cream, craves 1,000 total stores across Arizona, country*  
**Yvette Armendariz**

If Doug Ducey has his way, Cold Stone Creamery will be the first thing consumers think about when they go out for ice cream.

The Scottsdale-based chain, largely concentrated in Arizona and California, is building a reputation for indulgence by taking premium ice cream and mixing in candy and fruit treats on a cold slab.

This year, Cold Stone is focusing growth efforts in Texas and Florida and along the East Coast. It wants to double its retail presence, to more than 1,000 stores nationally.

The plans are aggressive.

The company is less known than its larger competitors and some franchisees worry that company support may suffer, sparking higher costs and delays in opening new outlets, as the ice cream company plows its way to 1,000 stores.

Competitors say the goal is optimistic.

Ducey, Cold Stone's president and chief executive, calls the growth healthy.

"Our growth has been a reflection of people that are knocking on our door, saying can I buy more ice cream? Can I open more stores? We're just trying to meet the demand coming our way," he said.

"I don't know if we're growing too fast. We may not be growing fast enough."

The ambitious plans can be traced to August 1999 when Ducey proposed Cold Stone should become the "ultimate ice cream experience." He wanted to operate 1,000 profitable stores by the end of 2004.

At the time, the ice cream chain had just 74 stores. As of Jan. 8, the company operates 560 stores in 42 states.

The chain, employing more than 120 in Scottsdale, is small compared with Baskin Robbins and other big sellers such as Dairy Queen and TCBY.

They are all chasing a share of the \$12.5 billion "away from home" market.

Cold Stone wants to open 469 stores this year, and the company said it will reach that goal, Ducey said.

The company has 1,300 agreements in place with plans to cement 600 more this year.

"Some people said no way," Ducey told an energetic crowd of 1,300 franchisees and employees at the annual meeting last week in Las Vegas. "We prepared and planned, and we did it together."

The growing concept grew from a small mom-and-pop shop in Tempe run by Susan and Donald Sutherland, who remain active in the franchise.



Cold Stone remains about one-fifth of the size of market leader Baskin Robbins, with more than 2,700 U.S. franchises. Baskin Robbins also has more than 2,300 franchises internationally, an area that Cold Stone will venture into this year.

To head that effort, Ducey announced adding Lawrence Maltz to the team. Maltz is former chief operating officer for Starbucks who helped with the coffee empire's expansion into Asia. He also took Krispy Kreme to Australia and New Zealand. Details about Cold Stone's international expansion plans were not revealed.

"We are growing the way we want to grow," Ducey said.

Binh Nguyen, a franchisee outside Houston, said he would be worried if he lost his base of support. So far that hasn't happened. General start-up questions that came up were addressed quickly. Licensing and permitting issues had to be learned, as those vary from city to city.

"There's bumps, but you have to figure out how to hurdle them," said Nguyen, who opened a store in November.

He expects to open two more this year and is excited by the sales potential. Average store unit sales are near \$380,000, up from \$261,800 in 1999.

Loss of support is among typical concerns of any franchise owners across the nation. Operations that falter have problems managing growth because not enough support is available.

Also, oversaturation and too many of the new stores are operated by franchise owners who have no previous experience, said Don Debolt, president of the International Franchise Association in Washington, D.C.

"The important question is how many of the new units are being opened by existing franchisees," he said, and the answer gives guidance "whether the growth is at a risk level or if it is well-managed growth."

Cold Stone has generated about half of its growth from existing franchise owners. .

Other "mix-in" concepts plan aggressive growth, too.

Maggie Moo's announced growing the brand to 1,000 stores by 2007. The Maryland-based company operates about 100 shops.

Houston-based Marble Slab hasn't announced as big a goal, but Ronald Hankamer, company president, expects to have 500 stores open or under development by the end of the year. It has 224 stores and 114 more under development.

"We see a bright future ahead," Hankamer said. But he does think some of the other franchises are a bit optimistic about operating 1,000 stores. "It's easy to throw out numbers," he said.

Lynda Utterback, executive director of Illinois-based National Ice Cream & Yogurt Retailers Association, doesn't see an overload on consumers yet.

"Probably as many ice cream stores go out of business as go into business every year," she said.

The new concepts are replacing older mom-and-pop shops that haven't been able to keep pace with changing consumer demands.

She also points out that publicizing growth helps the chains get their names into the minds of consumers, considered essential in the highly competitive market.

A company survey of eight major markets said that Cold Stone trails behind TCBY, McDonald's and Dairy Queen for customer awareness, but the gap is closing.

One thing is certain: With all the growth, Ducey does not foresee going public.

"There was a day when going public was attractive," he said. "You do it because you need money. . . We're over the capital crunch."