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## **Cold Stone Creamery's growth goes global**

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The economy may be a bit chilly -- but Cold Stone Creamery has a hot franchise concept that's scooping up more than \$100 million in annual sales and an aggressive expansion plan that mixes in New York City, international markets and a goal of 1,000 locations nationally by 2004.

Industry experts cite the 5-year-old, Scottsdale-based retailer's simple product and hands-on management of franchisees as essential to its growth. Others warn that fast expansions can backfire, and time will tell if the concept can sustain itself at such far-reaching levels. Cold Stone, which offers premium ice cream and a variety of "mix-ins" folded together on a frozen slab, was founded in 1998.

The idea of ice cream flavors with mix-ins, such as fruit and candies, has been around for awhile. Competitors such as Houston-based Marble Slab Creamery and Maryland-based Maggie-Moos dish out the same concept, albeit with a smaller Arizona presence. But industry observers say Cold Stone is taking on the market at a good time.

"Ice cream seems to be making a comeback, there's been a lot of premium ice cream concepts at the trade shows," said Nancy Weingartner, managing editor for the Minneapolis-based Franchise Times, a national industry publication. "The ones that are making it are high-fat, premium products. Cold Stone is a leader in the premium ice cream comeback. It's like Starbucks; you don't go for regular coffee, you get something semi-customized and pay \$5 for it.

"I like the Cold Stone philosophy. They seem to encourage their workers to be friendly, and they audition for sales people (who sing a song for customers who tip). The last trade show I went to, they had a group of young people in leadership roles which is good if you're trying to attract young people." Weingartner said. "But it's difficult to expand so fast -- it's everyone's dream, and it's fine as long as the funding is there."

Cold Stone is recreating a niche that has been left vacant by the faded Valley presence of such national brand names as Swenson's, Farrells and Baskin-Robbins.

"They're filling a void and have a unique service concept," said John Schwimmer, president of SEI Consulting in Scottsdale, a restaurant business management consulting firm. "Because of the cost of real estate you see the businesses go out. Cold Stone makes the revenue and they're more expensive. In the past 12 years the industry has gone through a culling, and new concepts have risen.

"Häagen-Dazs, Swenson's, Ben & Jerry's retail operations were serving up dipped cones and things of that nature. They are not around anymore. There's still Baskin-Robbins but you have to look for it; they're no longer top-of-mind," Schwimmer said.

"It will take time to figure out if Cold Stone has made a good decision (to aggressively expand). Survival depends on sales over time and real estate is pricey. If they're thriving after 10 years it will open my eyes more."

### **Branching out**

The ice cream maker's franchise philosophy is to seek entrepreneurs looking for creative opportunities, said Jim Flaum, Cold Stone executive vice president. The company is led by President and Chief Executive Doug Ducey, employs 100 people at its Scottsdale headquarters and has 400 stores up and running nationally. Thirty-eight stores are in Arizona.

The company owns four stores itself and will own the one slated to open this summer in New York City's Times Square. The others are franchised through an area developer. The cost typically is \$31,000 for the first franchise, and \$21,000 for each additional store beyond that, Flaum said. Cold Stone and the area developer get a portion of the franchise fee, and split 6 percent royalties monthly from the stores.

"We plan to make the goal of 1,000 locations in 2004, we're on track for those stores," Flaum said. "Sales per stores average \$357,000 per year. It's comfort food and high quality, and people are willing to pay the extra dollars to enjoy it."

Flaum said the company will begin looking to international markets in 2004 as well. As for marketing, Flaum said Cold Stone will launch an outdoor campaign in Phoenix and will air more radio spots.

"We're really excited about Times Square and are planning about 20 stores in New York City and the boroughs in the next year," Flaum said.

### **On the local front**

Compared to its competitors, Marble Slab and MaggieMoos, Cold Stone commands the biggest local presence. Marble Slab has 188 stores nationally with six in Arizona. MaggieMoos, more concentrated in the Eastern United States, has three shops in Arizona.

Cold Stone franchisees who do well are encouraged to expand. Toni Stork has opened two so far, one in Goodyear, one in Avondale, and plans to open a third one in Surprise next year.

"We have a lot of local support. We like their management style, which is more like a family or team. We'd like to have six stores eventually and grow with the company," she said. Steve Chucri, president of the Arizona Restaurant & Hospitality Association, said Cold Stone has managed to secure a strong dessert niche so far.

"And the terms of agreement to open one are fairly easy. They have a good growth plan, and I haven't met a person yet who doesn't like ice cream," Chucri said.