

BUSINESS

Ice cream battle churns in Texas ☑

With no room to expand, makers must scoop up share from rivals

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New Orleans native Racquel Foxworth had to leave most of the things from her past behind when she fled Hurricane Katrina two years ago. But last week, on one of Dallas' scorcher days, the Texas transplant found a taste from her childhood in a Murphy strip mall.

"I grew up with Baskin-Robbins," said Ms. Foxworth, who now lives in Wylie, about six miles from the mall's Baskin-Robbins ice cream outlet. "I'm not crazy about [other brands]. Maybe it's because I didn't grow up with them."

In Texas and across the country, the traditional soft-serve Dairy Queen cone still rules.

But thanks to a turf battle in the ice cream world, in-state ice cream lovers with out-of-state tastes may soon be sated. Baskin-Robbins is just one of the brands expanding in the Lone Star State in hopes of finding new mouths to freeze.

Why? Sellers of the frozen treat are confronting a bittersweet truth: More than 90 percent of American households already buy ice cream, says research firm Mintel Group.

"Anybody who's growing is [gaining] at the expense of someone who is declining," explained Michael Keller, chief brand officer for International Dairy Queen Inc.

Americans consume about \$21 billion in frozen desserts a year, says the International Dairy Foods Association, a Washington, D.C., trade group.

There's dueling data on how much of that money is spent away from home, with the International Ice Cream Association (part of IDFA) putting the figure at \$13.5 billion, including sales at restaurants and some retail outlets such as convenience stores.

Technomic Inc., a Chicago-based restaurant market research firm, looks at just ice cream parlors and says sales are closer to \$6 billion and have held steady for years.

With the ice cream market frozen, individual brands have crafted new temptations to keep their share from melting.

Minneapolis-based Dairy Queen is focusing on its other food, especially in Texas.

Houston-born Marble Slab Creamery touts its indulgence quotient, featuring Scandinavian chocolate and Madagascar vanilla beans.

Despite the nation's obsession with its growing girth, few ice cream parlor innovations have focused on fat or calorie reduction.

Dairy Queen dropped its lower-calorie frozen yogurt because it wasn't selling, and other brands put sales of health items in single digits.

That's in contrast with the grocery aisle, where reduced-fat ice cream sales jumped 15 percent in the first half of 2006, the most recent data available, according to the dairy foods trade group.

Industry insiders say that's because most consumers see a trip to an ice cream parlor as a reward.

Small players

Still, America's focus on health has created an opening for smaller players, such as Lubbock-based Bahama Buck's, to sneak in.

The company serves lighter smoothies and shaved ice desserts in flavors such as passion fruit and strawberry cheesecake. It has four D-FW locations and plans to open two more this year and four in 2008.

"Snow products can have zero carbs, zero calories, zero cholesterol," Blake Buchanan, Bahama Buck's founder and president, said in an e-mail interview.

Mr. Keller of Dairy Queen concedes that the fast movers in the ice cream segment today are in niches, such as calorie-laden super-premium or healthier alternatives.

"There are no doubt growth stories, but total growth is almost always at the expense of someone else," he said.

That "someone else" just might be him, according to figures from Technomic.

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2002	\$5.635
2003	\$5.636
2004	\$5.940
2005	\$6.177
2006	\$6.314
*Figures do not include retail sales at traditional grocery stores. SOURCE: Technomic Top 500 chain report	

Dairy Queen opened its first soft-serve ice cream store in June 1940 in Joliet, Ill.

Today, with nearly 5,000 U.S. outlets, including 600 in Texas, it is the largest ice cream player. Texas is its biggest market.

Yet this leader has seen upstarts, particularly those appealing to urban sophisticates, chip away at its market share.

The company claimed 44 percent of ice cream parlor sales in 2002, according to Technomic. By last year, that had slipped to 39.6 percent.

To heat up sales, the company has focused on marketing and innovation in its signature Blizzard. In May, the company introduced waffle bowls.

"Blizzard and waffle treats and ice cream cakes have been a key driver for us," said Mr. Keller.

But at Texas Dairy Queens, food rules, said Larry Newell, president of the Texas Dairy Queen Operators' Council. He said some Texas stores get 70 percent of their revenue from food sales.

Meanwhile, the soft-serve business has been, well, soft.

Among "scoop" ice cream parlors, the largest player is California-based Baskin-Robbins, which is planning a major expansion in Texas, said James Franks, director of franchising for the U.S.

Owned by Canton, Mass.-based Dunkin' Brands, the Baskin-Robbins brand has been around since the early 1950s and has about 2,900 U.S. locations, 90 of those in Texas, with 18 in Dallas-Fort Worth.

While its strongholds are California and the Northeast, it's had a dozen or so Dallas-Fort Worth locations for years, some dating to the 1960s.

"To have 18 [stores] with 6.2 million people, it's not a high penetration," said Mr. Franks.

The company plans to change that. It hopes to boost company sales by aggressive expansion.

Until April 2006, the company had not accepted franchisee applications in the Dallas area for at least five years, Mr. Frank said. The focus was on the Northeast and Midwest.

Now it has turned its attention to the Lone Star State, planning to open more than 260 stores here in the next four years.

Selling decadence

As it does, it will battle high-end brands such as Marble Slab Creamery.

Chris Dull, who oversees franchise operations for Marble Slab's parent company, Atlanta-based NexCen Brands Inc., hopes to convince consumers that his offering is more than just another ice cream.

Founded in Houston in 1983, Marble Slab was purchased in March by NexCen, an acquisition and management company that also owns the Athlete's Foot brand. Marble Slab has 372 units - up from 163 in 2002 - with more than 120 in Texas.

"Everything we're doing is based on decadence and premium," said Mr. Dull, president of NexCen's franchise management operation. "We want the customers to recognize us as having a truly premium offering."

Stores are mostly in dense urban areas where the median income is \$65,000 and up.

The cost is not for the faint of wallet or wide of hips. A 6.75-ounce serving of Marble Slab's super-premium ice cream will set you back a cool \$3.50 and plop 450 calories and 28 grams of fat onto your frame. By comparison, a 4-ounce scoop of Gold Medal Ribbon ice cream at Baskin-Robbins comes with 260 calories, 13 grams of fat and costs \$2.29.

Kevin Donnellan Sr., a spokesman for Cold Stone Creamery in Scottsdale, Ariz., the largest player in the premium space, said his company has tried lower-calorie offerings.

"They typically don't do well," he said. "We're not an everyday treat so [consumers] want to go for the full-fat, ultra-indulgent creation."

Mix-Ins

At Cold Stone, that means up to 12 ounces of premium ice cream combined with the consumer's choice of "Mix-Ins" such as fruit, nuts or candy.

The company has 62 stores in Texas, including four that opened this year in the Dallas area. Two more Texas stores will open this year, for a total of nine new outlets in the state.

Coming off a period of rapid expansion, Cold Stone is now focused on tightening operations at its roughly 1,400 U.S. units. The company furloughed about 40 corporate staffers - 20 percent of the team - in December 2005. Last year, it cut its new-store growth rate in half to about 150 units a year.

Still, it's seen its market share jump from 1.6 percent in 2002 to 7.5 percent last year, says Technomic.

Mr. Donnellan and other ice cream execs were philosophical about the heated competition in frozen treats, with each betting his firm will ultimately create the better mouth trap.

Ice cream parlors may come and go, but, as Mr. Donnellan said, "There will always be ice cream."