



BUSINESS



FreshBerry offers both frozen yogurt and Fresh Pops made with yogurt and fruit.

Culture Club

Frozen yogurt is back with new chains, new flavors, new style and ambitious plans.

By Dawn Reiss, Special to R&I

The economic chill gripping much of foodservice—bringing less-ambitious forecasts for new-unit openings and sales growth—has so far skirted at least one corner of the industry. Proving that little luxuries can thrive even when basic necessities are scrutinized, the frozen-yogurt segment is expanding inward from the coasts and keeping warm the industry's entrepreneurial spirit.

This really is frozen yogurt's second expansion wave. The first, in the 1980s, driven by brands such as TCBY and I Can't Believe It's Yogurt, lost its momentum. According to the Agricultural Marketing Resource Center, retail sales of frozen yogurt declined between 1998 and 2003 while ice cream sales grew by 24%.

Frozen yogurt's current popularity wave

is led by new brands. Berry Chill, sno:la, and FreshBerry are joining the ranks of Pinkberry and Red Mango, which already have a strong hold on the East and West coasts. The product these new purveyors serve is different: tangier or more tart, depending on

the brand, and lighter than frozen yogurt's previous incarnation. It usually is topped with fresh fruit, granola, cereal or a more-decadent splurge, such as chocolate. Flavor choices go well beyond chocolate and vanilla territory to more-exotic options such as green tea, pomegranate and sour cherry.

The free-standing frozen-yogurt shops cater to an audience that shuns fluorescent lightening and expects a sit-and-chat type of ambience. In place of the outmoded ice-cream-parlor look, many of the stores have opted to feature high-end furniture, > 86

DUE FOR A COMEBACK

1.3

U.S. pounds-per-capita consumption of frozen yogurt in 2005, compared with 3.4 pounds in 1995.

(Economic Research Service)

< 85 flat-screen televisions and Wi-Fi to lure everyone from business professionals and teens to late-night revelers. Many play upbeat dance music and have sofas and cafe-style tables that encourage customers to linger. Of more importance, the operators think that consumers are willing to spend \$5 on a different frozen-yogurt experience.

THE YOGURT RUSH

In the 1980s, frozen yogurt tapped into the "fitness craze." The current interest in healthful eating and fresh ingredients has helped bring frozen yogurt back.

"Ask any frozen-yogurt fan, and they will say it's different this time," says Dan Kim, president and CEO of Culver City, Calif.-based Red Mango. "We're creating a gourmet yogurt experience, which really hasn't happened before."

He adds: "We want to do what Starbucks did for coffee. They charged a premium for it and added quality and service, and we want to do same thing with yogurt."

Kim's vision for the category may not be unreasonable. Maveron, a Seattle investment firm co-founded by Starbucks

Frozen-Yogurt Players Ounce for Ounce

	Small	Medium	Large
 Berry Chill Original Flavored	\$2.99 (5 oz.) \$3.99	\$3.99 (8 oz.) \$4.99	\$5.49 (12 oz.) \$6.49
 FreshBerry Original/Flavored Kids'	\$3.99 (5.5 oz.) \$3.19 (3.5 oz.)	\$4.99 (7.5 oz.)	\$5.99 (11 oz.)
 Pinkberry Original Green Tea/Coffee	\$2.50 (5 oz.) \$3.50	\$3.50 (8 oz.) \$4.50	\$5.50 (13 oz.) \$5.95
 Red Mango Original Green Tea	\$2.50 (4 oz.) \$3.50	\$3.50 (8 oz.) \$4.50	\$5.50 (12 oz.) \$6.50

Chairman Howard Schultz, last year invested \$27 million in one of Red Mango's chief competitors, Los Angeles-based Pinkberry, which had 37 stores at the end of 2007 (see "A New Taste").

Red Mango, which was founded in South Korea in 2002 and which opened its first U.S. store in Westwood Village in Los Angeles in July 2007, plans to double its number of U.S. stores to 50 by the end of the year. The chain plans to expand eventually to 500 to 1,000 units in the United States, and development efforts are under way in Canada, Mexico and the United Arab Emirates.

There are two main reasons, Kim says, that frozen yogurt has taken off again. "People are a lot more health-conscious today than they were a few years ago," he says. "The Internet has a lot more information, so there is a shift toward

healthier eating and there is a consumer demand for a branded higher-quality experience."

Although the health value of frozen yogurt is still debated, Jo Ann Hattner, a clinical dietitian who teaches nutrition classes at Stanford University, says renewed interest in frozen and traditional yogurt stems from a wellness movement that includes a growing fascination with pre- and probiotics.

"People are moving away from 'How do I treat my illness?' to 'I want to be well and treat my body with all-natural foods,'" she says.

ECO-FRIENDLY AND DELICIOUS

That's exactly why Masako Kawashima, owner of sno:la in Los Angeles, says she got into the business last September. While working as a promoter for several well-known musicians, Kawashima, president of Japanese-based JEC International, noticed that several of her clients "wanted sweet treats but didn't want anything fattening."

Intrigued by the idea of a sweet > 88



Red Mango is "creating a gourmet yogurt experience, which really hasn't happened before," says CEO Dan Kim (l.). The chain intends to have 50 U.S. units open by the end of 2008.

<86 and craveable but healthful snack, Kawashima purchased a small soft-serve machine and started making frozen yogurt from home. Without a background in the foodservice industry, Kawashima hired an associate with food-product-development experience to help her create the product. Together they developed a 100% organic dairy-based product that Kawashima says doesn't use refined white sugar and doesn't contain any artificial additives.

Her six flavors range from sweet, chocolate cremita and dulce de leche to tart sour cherry. Kawashima also added an environmentally friendly element to her shop. Her yogurt containers are made from sugar cane and will biodegrade in three weeks, she says, and the containers for fruit and yogurt parfaits are corn-based and will biodegrade in six weeks. Kawashima also buys 70% to 80% of her produce from local farmers who practice sustainable land use.

SPOON WARS

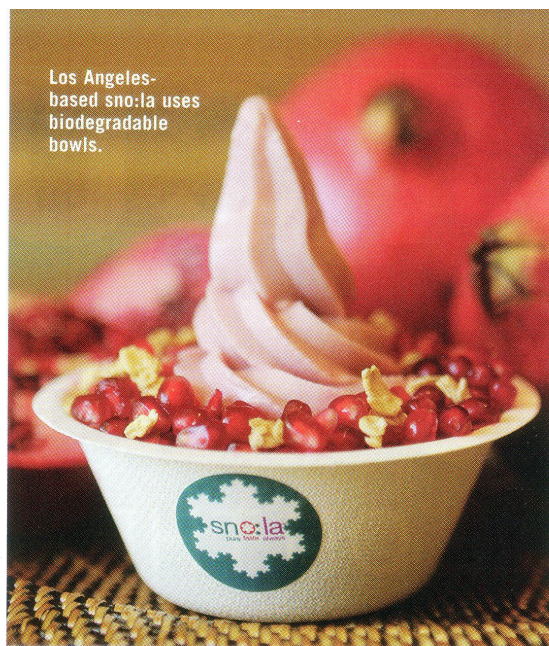
Purveyors of the "new" frozen yogurt have focused their expansion efforts

primarily on the coasts, but Chicago-based Berry Chill is looking to establish a strong presence in the Midwest, Southwest and South by early 2009.

The first Berry Chill store opened in Chicago on March 14; two additional locations will open this summer. Berry Chill founder and CEO Michael Farah used to trade crude-oil futures but says he has always been an entrepreneur at heart. As a student at the University of Iowa in Iowa City, he created the Hawk ID student-discount card for use at local restaurants and retailers. He built on that idea to create a Berry Chill Culture gift card that doubles as a loyalty card.

In addition to offering a traditional service counter, Berry Chill units will feature several stand-alone kiosks to allow customers to place their order even faster. Customers swipe the loyalty card and the terminal screen will display their five most-recent orders. The kiosk also will let customers choose one of several charities

Los Angeles-based sno:la uses biodegradable bowls.



to which to donate 3% of their purchase.

Farah's lactose-free product has lower sugar levels than other yogurts, and he plans on rotating three of his four flavors—original, chilled latte, chilled hot chocolate and strawberry banana—each month. He hopes Berry Chill will reach 100 stores within the next five years.

A PLACE FOR INDULGENCES

Frozen yogurt's resurgence isn't confined to quick-service operations. At San Francisco's upscale One Market Restaurant, frozen yogurt is served both on its own and as part of heavier desserts, such as a rich chocolate soufflé. One Market's Pastry Chef Patti Dellamonica-Bauler says there's no question that patrons are ordering more than they have in the past.

"You are usually following up a couple of courses, so it's nice to have something that is a little lighter," Dellamonica-Bauler says. "It's a little more fulfilling than having a sorbet because it feels a little bit creamy, but you don't feel as guilty. It's a huge trend."

The strong possibilities that David Rutkauskas, founder, president and CEO of Tulsa, Okla.-based Beautiful Brands Inc. (the parent of Camille's Sidewalk Café and Coney Beach), saw for frozen yogurt led him to open FreshBerry Frozen Yogurt Cafe in Tulsa in February. The store was profitable within two weeks, Rutkauskas says.

"The restaurant industry is tough right now," he says. "Food costs are rising; consumers are pulling back on spending; and it's trickling down to everybody." > 90

A New Taste

Korean-Americans Shelly Hwang and Young Lee are credited widely with helping launch the new U.S. "fro-yo" craze. Hwang purchased property in West Hollywood, Calif., with the goal of opening an English tea house in the space. When she couldn't get the permits necessary to bring that idea to fruition, Hwang worked with Lee to develop what would become the first Pinkberry location.

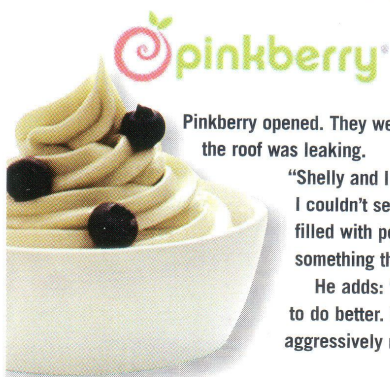
Lee says that he and Hwang had a hard time convincing their landlord that the concept would sell. When Pinkberry first opened, it offered two flavors: plain and green tea. Lee jokes that their landlord asked how the concept would compete when a frozen-yogurt vendor across the street offered 10 flavors. But Lee and Hwang found success in bucking the conventional ice-cream-shop format. They created a nouveau-riche environment and offered small luxuries, such as fresh fruit toppings.

The couple splurged on high-end pieces, including \$350 chairs and a \$600 table, added halogen incandescent lighting and piped what Lee calls "happy music" into the space. Hwang and Lee knew they were on to something about a month after

Pinkberry opened. They were in the middle of eating dinner and an employee called to tell them the roof was leaking.

"Shelly and I decided to drive to the store," Lee says. "As I approached, I realized I couldn't see inside since all the windows were fogged because the place was filled with people. That's when I realized we had something. We realized we had something that brings people in even during the rain, even during the winter."

He adds: "Most businesspeople like to focus on what they have done wrong to do better. We focused on what we do right. It's all about relearning and aggressively making it even better."



< 88 But this is a product that is a very healthy indulgence. Even in down times, consumers are still going to have their indulgences. They may not go to Morton's Steakhouse and spend \$100, but they are going to go to the McDonald's of the world."

Rutkauskas hopes to expand

THE BIG CHILL

\$13.3 billion

Size of the U.S. away-from-home frozen-dessert market in 2004; sales of ice cream and frozen desserts for at-home consumption totaled \$21.4 billion in that year. (Agricultural Marketing Resource Center)

FreshBerry to more than 50 locations by the end of the year. One factor that encourages fast growth for the concept: low operating costs. Small-footprint locations with a small number of employees allow for a quicker return on investment, he says.

"It's a tremendous business model and incredibly simplistic," says Rutkauskas, adding that he makes an average of 15% to 17% profit based on \$350,000 to \$400,000 in revenues over a rolling 12-month period. "A store like this is easy to operate, and it won't break the bank to invest in. So many people in the U.S. are worried about the economy. They are worried about their future and their families. They can't get a new mortgage and gas prices are bad. So these people are looking to invest in a business to control their own destiny."



Following the success of his Camille's Sidewalk Café fast-casual concept, David Rutkauskas (above) has opened the first FreshBerry Frozen Yogurt Cafe and sees potential in the category.

Adds Rutkauskas, "It's probably the most efficient way to make money in the restaurant business right now. At the end of the day, that's what it's about." **R&I**

Dawn Reiss is a Chicago-based freelance writer.