

How Sweet It Is

After decades of courting Texans, Blue Bell Creameries is creating a frenzy for its ice cream throughout the South | BY LYNN COOK

HOWARD KRUSE HAS HIS ROUTINE. AT 73 THE chief of the \$400 million (2003 sales) Blue Bell Creameries heads home during the lunch hour, eats a hot meal cooked by his wife and takes a catnap. The stop is 8 miles from his office in Brenham, Tex. (pop. 13,500). Kruse (pronounced “crew-zee”) can afford to rebuff offers of three-martini lunches from bankers who have been trying for years to shop his company to a larger acquirer or, at the very least, to take it public. In over 80 years the family-run company has never lost money, staying profitable even during the Depression.

After building unflinching loyalty among Texans, one scoop at a time, Blue Bell is in fat city. It’s the third-largest branded ice-cream maker in the U.S., behind Dreyer’s (2002 sales: \$1.3 billion) and Unilever’s Breyers (\$660 million). Though sold in only 14 southern states, the brand still has higher revenues than nationally available Häagen-Dazs (owned by General Mills) and funky Ben & Jerry’s (Unilever). So confident is it of customer demand that it has never paid slotting fees to the grocery and convenience stores that account for 70% of its business (the remainder is in restaurants and schools). Kruse says that some stores take a long time to come around. But he can afford to wait: His gross margin is well in the double digits, compared with 11% or so for other premium brands.

What’s so great about this stuff? It’s pretty rich, weighing 52 ounces per half-gallon (compared to 40 ounces for Breyers), and has a fat content of 13% (just below Häagen-Dazs’ 18%). It sports a rainbow of flavors, 98 in all, including the cinnamon available at only a few select restaurants. In 1992, after a gas line exploded outside of Brenham, killing three people, Blue Bell got calls from Texans worried about the health of the creamery’s cows (it doesn’t own any). President Bush has a standing order delivered to Camp David every two weeks.

Named after a Texas wildflower that blooms in the sweltering summer months, Blue Bell was started in 1907

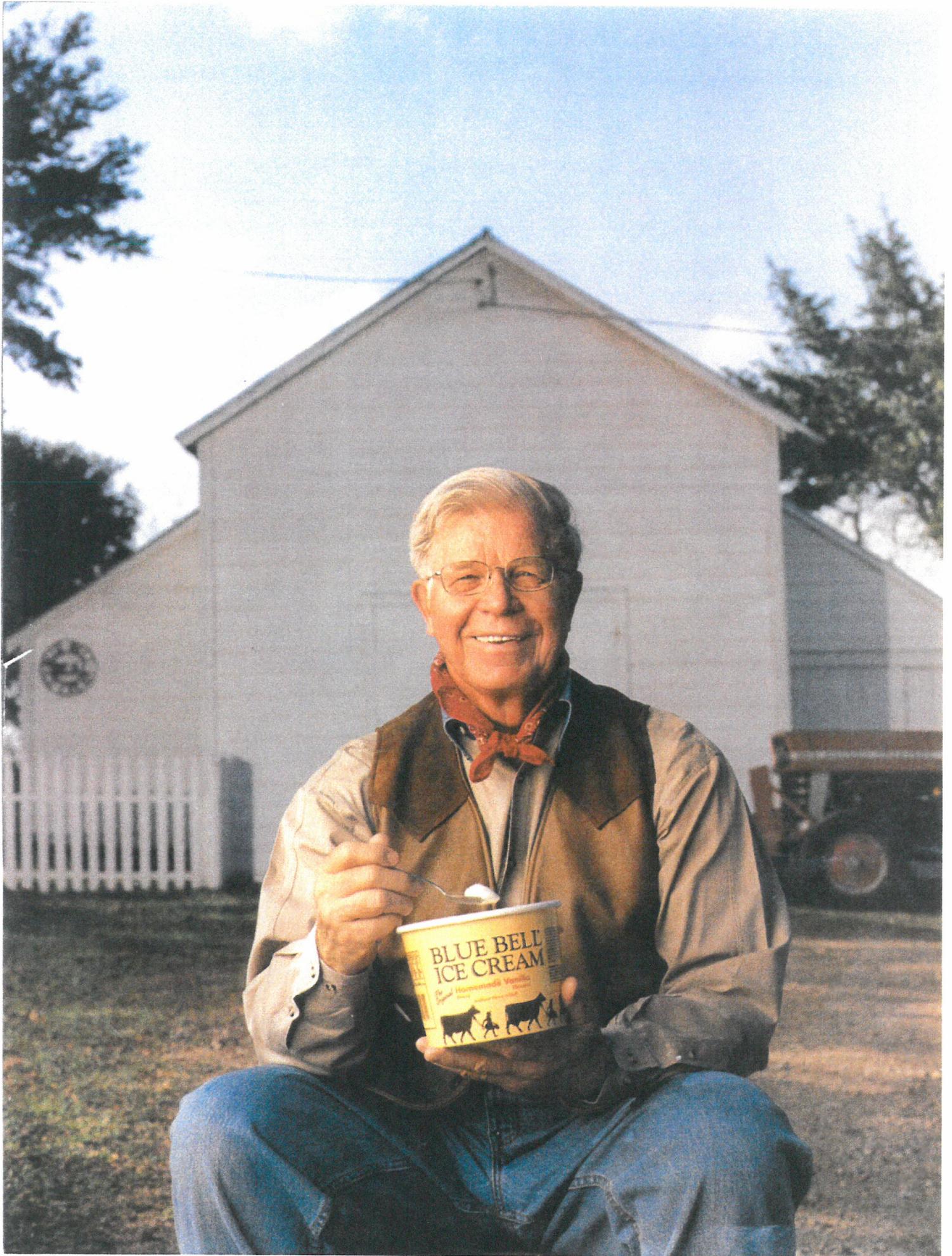
by a group of dairy farmers who made butter; by 1911 it was cranking out 2 gallons of ice cream a day from a wooden tub. Eight years later Kruse’s father, E.F. Kruse, then a 23-year-old schoolteacher, started managing the business, running it until his death in 1951. At around that time, his two sons, who had once worked for 10 cents an hour making ice-cream sandwiches by hand, took over. (Howard became chief executive in 1993; his older brother, Ed F. Kruse, took over as president in 1968.)

All that was fine in a town like Brenham. But when Blue Bell ventured into Houston in 1960, it took on giant dairies that supplied the milk for brands like Carnation and Swift. So the Kruses sent reps to one grocery store after another, offering taste tests but no discounts. As word got around, stores began calling Blue Bell: The ones that didn’t carry the brand were losing business to those that did. “We simply had no concept whatsoever of how far Blue Bell could go,” says Howard. Austin was added to the route in 1965; freezers in Dallas got their first supply in 1978.

Today Blue Bell commands 60% of ice-cream dollars spent in Texas and Louisiana; in Alabama, where it opened a production plant in 1997, it has 45%. Outside the company’s southern territory, people who need a Blue Bell fix fork over \$85 to have four half-gallons packed in dry ice and FedExed to them. Kruse’s desk is often littered with letters from impatient customers begging for coffee ice cream in July or asking when peppermint will be available year-round; Blue Bell has simply too many flavors to display in too few freezers, so it must rotate many in six-month shifts. It could easily sell farther afield, but insists on going at its own pace. “There’s a saying around here,” says Melvin Ziegenbein, Blue Bell’s vice president of sales and marketing. “It’s a cinch by the inch.”

Those inches are adding up to miles. Today Blue Bell is found in some Wal-Marts, and across the South, Publix, Winn-Dixie, Albert-

“We simply had no concept whatsoever of how far Blue Bell could go”: Chief Howard Kruse.



By the Numbers

Cold Comfort

Diets aside, the U.S. is still eating 1.5 billion gallons of ice cream a year.

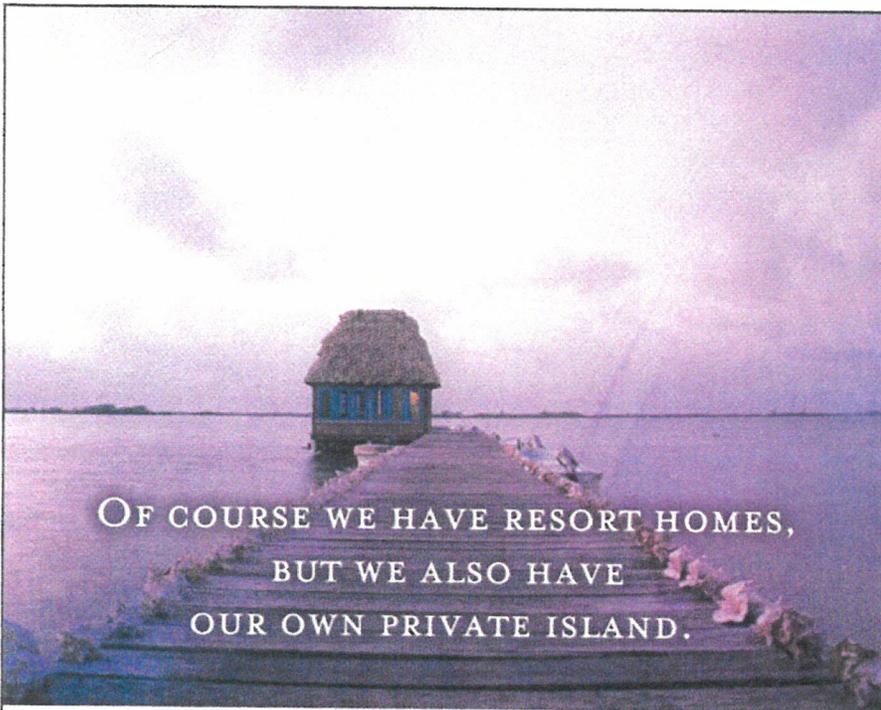
21 quarts Average annual per capita consumption of ice cream.

28% of all ice cream sold is vanilla, still the most popular flavor.

\$20.5 billion U.S. sales of ice cream and frozen dairy desserts.

11% of ice cream sold is low fat or no fat.

Sources: International Dairy Foods Association; U.S. Department of Agriculture.



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sons, Walgreens and Eckerd stores are clamoring for the ice cream, too. Howard still maintains tight control, keeping his own distribution in place, buying refrigerated trucks and letting no one but his drivers stock retail freezers. Some deals are still done on a handshake; Blue Bell doesn't even have a written agreement with the folks in Bentonville, Ark.

In 1991 the company toyed with exporting ice cream to Mexico. But at an average of \$3 a half-gallon and \$1.15 per scoop at parlors (more than two hours' wages in Mexico City then), Blue Bell was pricey. So Kruse focused on the Hispanic market closer to home in Texas and Florida. Last year Blue Bell rolled out special flavors with Spanish labeling, including *Tres Leches con Frescas* (three-milks cake with strawberries) and *Naranja y Piña* (a blend of orange purée and crushed pineapple).

One small cloud over this pastoral horizon: the question of succession. Blue Bell is 40% employee-owned but is still largely controlled by the Kruse family. Paul Kruse, 49, chief legal counsel and Ed's son, is a contender. So, too, is Blue Bell executive Melvin Ziegenbein, 60, who has been with the company 35 years and opened its first distribution branch across state lines in Oklahoma. Howard isn't tipping his hand, except to say that he's not planning to retire anytime soon. "I love this job," he says. "They'll have to carry me out." **F**