

DIPPIN' DOTS: IS THE FUTURE FROZEN?*

Dippin' Dots has produced and distributed its tiny flash-frozen beads of ice cream, yogurt, sherbet, and flavored-ice products since microbiologist Curt Jones invented the cryogenic process in 1988. Available in many tastes and types—Original Dots, Dots 'n Cream, Coffee, and Dot Treats—Dippin' Dots' innovative take on frozen food has changed some portion of the public's way of looking at ice cream. Made at the company's production facility in Paducah, Kentucky, Dippin' Dots' unique frozen products are distributed in all 50 states and 11 countries.

At the beginning of 2017, Dippin' Dots had experienced a steep increase in total sales and was involved in numerous lucrative developments. Since being acquired by Fischer Enterprises in 2012, Dippin' Dots had pursued a multi-pronged distribution strategy of establishing partnerships with other renowned amusement destinations such as Philadelphia Zoo, Chuck E Cheese, and several premier parks. The new distribution strategy also included a partnership that involved co-branding between Dippin' Dots and Doc Popcorn, which increased the product presence in nearly 7,000 convenience stores around the U.S.¹ Many challenges remained, however, for the company to expand internationally and achieve organic growth instead of structuring partnership and co-branding contracts.

The company was bailed out of bankruptcy in 2012. There seemed a lot of potential to grow Dippin' Dots at that time. The vision and creativity of the company founder and CEO, Curt Jones, appeared to be complemented perfectly by the business acumen and experience of its president, Scott Fischer.²

Recently, Dippin' Dots had added five new franchises within the U.S., increasing the total number of franchises from 130 in 2015 to 135 in 2016.³ However, the number of Dippin' Dots U.S. franchises was not growing steadily, and the number of international franchises remained stagnant.

A year earlier, Dippin' Dots had celebrated the 30th anniversary of National Ice Cream Month** by attempting to set a new world record in the world of ice cream. Dippin' Dots, the maker of the iconic flash-frozen ice cream and frozen treats, achieved a Guinness World Record title for the number of ice cream cups prepared by a team of five in three minutes. Curt Jones, Dippin' Dots' founder and CEO, was part of the record-setting team. "Our record attempt

was a fun and unique way to commemorate the 30th anniversary of National Ice Cream Month," said Jones.

The company had launched the Monster Munch, Kettle Corn Dippin' Dots, and Dinner Dots ice cream lines in 2014. The Monster Munch line included eight monster-themed flavors with what the company called "crazy flavors, crazy names and some crazy ingredients," while the Dinner Dots line included dot-size portions of five savory meals.

The company promoted the low cost of entry and flexibility of its franchising options. In an interview with *CNN Money*, Steve Rothenstein, Dippin' Dots' director of franchising, said the company had a lot of opportunities to suit a variety of business models. With a franchise start-up fee of only \$15,000, the company offered an economic option for budding entrepreneurs.

Dippin' Dots was flexible with alternative delivery models in addition to its more traditional brick-and-mortar locations. These included kiosks at malls and carts at community events (e.g., fairs and festivals).

What remained to be seen was whether all these advantages, innovations, and fixes would have a lasting impact on reversing the softness in company revenues and give the financials a much needed boost. Were these enhancements to the product portfolio, promotions, and business expansion efforts clever ways of growing the business, or just a last-ditch effort before the end? Despite the introduction of innovative new products, record-setting promotional events, and enticing franchise expansion opportunities, the future of the company remained uncertain.

Company Overview

In May 2012, Dippin' Dots LLC, a newly formed company based in Oklahoma and funded by private capital, acquired the Paducah, Kentucky-based Dippin' Dots Inc. A motion to approve the proposed sale was filed in April 2012 in the U.S. Bankruptcy Court in Louisville, Kentucky. In November 2011, Dippin' Dots Inc. had filed for Chapter 11 bankruptcy protection in federal court in Kentucky for a combination of reasons, including owing millions to lenders from costly patent litigation, as well as having increased operating costs and plummeting sales. Despite its unique twist on the classic frozen novelty, prior to the acquisition, Dippin' Dots had been encountering abysmal revenues and having trouble maintaining attention in the market. Feeling

* This case was prepared by Professor Alan B. Eisner of Pace University and graduate student Brian R. Callahan and Saad Nazir of Pace University as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. Copyright © 2017 Alan B. Eisner.

** July was designated National Ice Cream Month by the U.S. government in 1984.

the pressure, the company had looked to innovative new products, promotions, and business-expansion efforts as the hope for a turnaround. In the bankruptcy filing, the company listed about \$20.2 million in assets and more than \$12 million in liabilities.⁴ The acquisition was approved shortly after.

Dippin' Dots employed approximately 170 workers at its facility in Paducah, Kentucky, and Scott Fischer, president of Dippin' Dots LLC, had no particular plan to move the facility or let go any existing employees. Dippin' Dots LLC was unaffiliated with the existing Dippin' Dots Inc. entity. Fischer said:

We are looking forward to working with the Dippin' Dots management team and employees to maximize the opportunity of the business and realize the company's growth potential in a global market. We are committed to ensuring that Dippin' Dots reclaims its status, not as a novelty of the past, but as the ice cream of the future. This transaction has become a very equitable solution to the parties involved, and we expect a very smooth transition.⁵

Fischer said they had taken the opportunity to acquire Dippin' Dots Inc. in order to rescue the frozen novelty and keep it afloat. Fischer added:

We are looking forward to rolling up our sleeves and personally meeting with all of the employees, franchisees, and business associates of the company and moving forward in a very stable and productive manner. We see substantial value in the Dippin' Dots brand, one of the most well-known brand names in the retail market.⁶

Showing their enthusiasm for growth, in January 2013 Fischer and the new executive team decided to invest over \$3.1 million in the company's home facility in Kentucky, expanding operations and creating 30 new full-time jobs. Prior to the expansion, of Dippin' Dots' 170 workers, 60 lived in the Paducah area. Fischer stated, "This investment underscores our long-term commitment to market the wonderful Dippin' Dots brand, introduce new products to complement existing ones, and maintain the historic ties to Kentucky."⁷ Other improvements were to include purchasing energy-efficient equipment, upgrading processes, and renovating the facility.

Earlier, Dippin' Dots had expanded its product line from ice creams to uniquely brewed coffees. Founder Curt Jones took a colder-than-cold instant-freezing process, similar to the one that made Dippin' Dots ice creams so delectable, and redirected that technology to fresh-brewed coffee. Just as he had dubbed Dippin' Dots the "Ice Cream of the Future" two decades earlier, he said the new "coffee dots" would adopt the slogan "Coffee of the Future." Real espresso was made from fresh, high-quality arabica beans and then flash-frozen into dots immediately, capturing the flavor and aroma. Named "Forty Below Joe edible coffee," the coffee dots could be eaten with a spoon, heated with water and milk to make a hot "fresh-brewed" coffee without

brewing, or blended with Frappé beads to make a Dippin' Dots Frappé. Jones's once kid-targeted dots now had a very adult twist.

Jones was thinking about more kid-friendly treats, too. For years Jones had been thinking of coming out with low-calorie, low-fat Dippin' Dots that could meet the nutrition requirements and regulations set by public schools and thus be sold at the schools. The result was "Chillz," a lower-calorie alternative to ice cream. Dippin' Dots Chillz was a low-fat frozen-beaded dessert made with Truvia, an all-natural sweetener. This healthier alternative to ice cream was also an excellent source of vitamin C. It was available in three flavors: Sour Blue Razz, Wango Rainbo, and Chocolate.⁸ In the words of Dippin' Dots' vice president of sales, Michael Barrette:

We're starting to distribute Chillz through the vending channel. We already have two contracts under way and expect to get more. Vending companies know and love the Dippin' Dots brand. With Chillz and other products, it's a great opportunity for them. Schools need that revenue. They've thrown out a lot of products in recent times that have no nutritional value. So we feel bullish about Chillz.⁹

An Innovative Product

The company's chief operation was the sale of BB-sized pellets of flash-frozen ice cream in some two-dozen flavors to franchisees and national accounts throughout the world. As a Six Flags customer commented, "I gotta say, man, they're pretty darn good. . . . Starts off like a rock candy but ends up like ice cream."¹⁰

Dippin' Dots was the product of a marriage between old-fashioned handmade ice cream and space-age technology. Dippin' Dots were tiny round beads of ice cream made at super-cold temperatures, served at subzero temperatures in a soufflé cup, and eaten with a spoon. The super-cold freezing of Dippin' Dots ice cream, done by liquid nitrogen, cryogenically locked in both flavor and freshness in a way that no other manufactured ice cream could offer. The process virtually eliminated the presence of trapped ice and air, giving the ice cream a fresh flavor and a hard texture. Not only had Jones discovered a new way of making ice cream, but many felt his product was more flavorful and richer than regular ice cream. According to Jones, "I created a way . . . [to] get a quicker freeze so the ice cream wouldn't get large ice crystals. . . . About six months later, I decided to quit my job and go into business."

Jones was a microbiologist by trade, with an area of expertise in cryogenics. His first job was researching and engineering as a microbiologist for ALLtech Inc., a bioengineering company based in Lexington, Kentucky. During his days at ALLtech, Jones worked with different types of bacteria to find new ways of preserving them so that they could be transported throughout the world. He applied a method of freezing using super-cold temperatures with substances such as liquid CO₂ and liquid nitrogen—the same method he later used to create Dippin' Dots.

One process Jones developed was “microencapsulating” the bacteria by freezing their medium with liquid nitrogen. Other scientists thought he was crazy, because nothing like that had ever been done before. Jones, however, was convinced his idea would work. He spent months trying to perfect the process and continued to make progress. While Jones was working over 80 hours a week in ALLtech’s labs to perfect the microencapsulating process, he made the most influential decision of his life. He took a weekend off and attended a family barbeque at his parents’ house. It just so happened that his mother was making ice cream the day of the barbeque. Jones began to reminisce about homemade ice cream prepared the slow, old-fashioned way. Then Jones wondered if it was possible to flash-freeze ice cream. Instead of using a bacteria medium, was it possible to microencapsulate ice cream?

The answer was yes. After virtually reinventing a frozen dessert that had been around since the second century BC,¹¹ Jones patented his idea to flash-freeze liquid cream, and he opened the first Dippin’ Dots store.¹² Once franchising was offered in 2000, the “Ice Cream of the Future” could be found at thousands of shopping malls, amusement parks, water parks, fairs, and festivals worldwide. Dippin’ Dots ice cream was transported coast to coast and around the world by truck, train, plane, and ship. In addition to being transported in specially designed cryogenic transport containers, the product was transported in refrigerated boxes known as pallet reefers. Both types of containers ensured fast and efficient delivery to franchisees around the world. The product was served in 4-, 5-, and 8-ounce cups and in 5-ounce vending prepacks.

Product Specifics

Dippin’ Dots flash-frozen beads of ice cream typically are served in a cup or vending package. The ice cream averages 90 calories per serving, depending on the flavor, and has 9 grams of fat. The ice cream is produced by a patented process that introduces flavored liquid cream into a vat of negative 320 degree liquid nitrogen, where it is flash-frozen to produce the bead or dot shape. Once frozen, the dots are collected and either mixed with other flavors or packaged separately for delivery to retail locations. The product has to be stored at subzero temperatures to maintain the consistency of the dots. Subzero storage temperatures are achieved by utilizing special equipment and freezers supplemented with dry ice. Although storage is a challenge for international shipping, the beads can maintain their shape for up to 15 days in their special containers. To maintain product integrity and consistency, the ice cream has to be served at 10 to 20 degrees below zero. A retail location has to have special storage and serving freezers. Because the product has to be stored and served at such low temperatures, it is unavailable in regular frozen-food cases and cannot be stored in a typical household freezer. Therefore, it can be consumed only at or near a retail location, unless stored with dry ice to maintain the necessary storage temperature.

Industry Overview

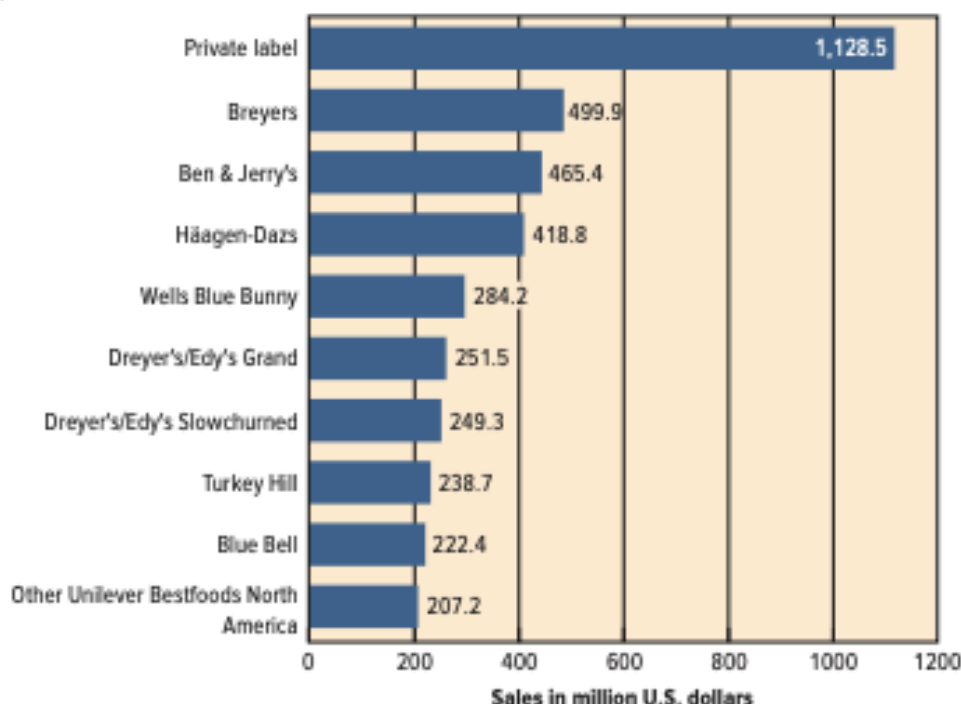
The frozen dairy industry has traditionally been occupied by family-owned businesses such as Dippin’ Dots, full-line dairies, and a couple of large international companies that focus on only a single sales region. The year 2016 was a relatively flat year for the production and sale of ice cream, as volume in traditional varieties remained flat and new types of ice cream emerged. Despite higher ingredient costs, manufacturers were continually churning out new products, though at a slower rate than in the previous year. New products and varieties range from super-premium selections to good-for-you varieties to cobranded packages and novelties. Most novelty ice creams can be found together in supermarket freezer cases, in small freezers in convenience stores, and in carts, kiosks, or trucks at popular summertime events. Ice cream makers have been touched by consolidation trends affecting the overall food and beverage industry that extend beyond their products, as even the big names have been folded into global conglomerates.

The ice cream segment in the United States is a battleground for two huge international consumer-product companies seeking to corner the ice cream market. Those two industry giants are Nestlé SA of Switzerland, the world’s largest food company, with more than \$88 billion in annual sales, and Unilever PLC of London and Rotterdam, with over \$53 billion in annual revenues.¹³ Both have been buying into U.S. firms for quite a while, but Nestlé, which already owned the Häagen-Dazs product line, upped the ante with its June 2003 merger with Dreyer’s Grand/Edy’s Ice Cream Inc. of Oakland, California. But even as the two giants dominate the U.S. ice cream industry, about 500 small businesses continue to produce and distribute frozen treats. As one commentator has said, “Like microbrewers and small-scale chocolate makers, entrepreneurs are drawn to ice cream as a labor of love.”¹⁴ Some of the better-known brands are regional ones, such as Blue Bell, based in Brenham, Texas (see Exhibit 1).

Approximately \$54 billion was spent on ice cream in 2016.¹⁵ Ice cream and related frozen desserts are consumed by more than 90 percent of households in the United States.¹⁶ Harry Balzar, of the market research firm NPD Group, said about ice cream in general, “It’s not a small category, but one that has remained flat for more than a decade, and is not likely to grow.”¹⁷ The challenge for producers is to woo customers away from competitors and sustain a loyal fan base by continuing to innovate. The trend toward more healthy treats has spurred the major players, Nestlé and Unilever, to develop reduced-fat product lines that still have the taste and texture of full-fat ice cream. Edy’s/Dreyer’s, Breyers, and Häagen-Dazs have all continued to experiment, and the “slow churned,” “double-churn,” and “light” products are seeing increased sales.¹⁸

A novelty product delivery system in the independent scoop shop is the “slab” concept. Employees at franchises such as Marble Slab Creamery and Cold Stone Creamery work ingredients on a cold granite or marble slab to blend

EXHIBIT 1 Top 10 Ice Cream Brands, 2016



Source: Statistica 2017.

premium ice cream with the customer's choice of tasty additives, such as crumbled cookies, fruits, and nuts, before serving it in a cup or cone. The novelty is the entertainment of watching the preparation. Both chains rank in *Entrepreneur's* list of the top 500 franchise opportunities, but commentators are skeptical of their sustainability once the novelty wears off, especially since the average price is \$5 for a medium serving.¹⁹

Kona Ice, shaved ice with a wide range of flavors, was among the popular ice cream brands of 2017. The company's primary selling points are 814 decorated shaved ice cream trucks that entertain customers with colorful characters and tropical music while serving ice cream. Kona Ice franchisees own trucks that they bring to social events, schools, sports events and other community groups. Interestingly, Kona Ice experienced steady growth from the start of the company in 2008 and ranked 127th on *Entrepreneur's* Franchise 500 list of 2017.²⁰

Another prominent participant in the ice cream industry is Yogurtland Franchising Inc. Started in 2006, the California-based company offers 16 flavors of frozen yogurt along with 33 toppings. Customers are charged the price of frozen yogurt by the ounce. Yogurtland has been growing at a significant rate by expanding the number of franchises in the U.S. as well as Venezuela, Australia, Thailand and Dubai. By 2017, the company had 326 franchises and ranked 184th on *Entrepreneur's* Franchise 500 list.²¹

Industry Segmentation

Frozen desserts come in many forms. Each of the following foods has its own definition, and many are standardized by federal regulations.²²

- **Ice cream** consists of a mixture of dairy ingredients, such as cream, milk, and nonfat milk, and ingredients for sweetening and flavoring, such as fruits, nuts, and chocolate chips. Functional ingredients, such as stabilizers and emulsifiers, are often included in the product to promote proper texture and enhance the eating experience. By federal law, ice cream must contain at least 10 percent butterfat before the addition of bulky ingredients, and it must weigh a minimum of 4.5 pounds to the gallon.
- **Novelties** are separately packaged single servings of a frozen dessert, such as ice cream sandwiches, fudge sticks, and juice bars, which may or may not contain dairy ingredients.
- **Frozen custard** or **French ice cream** must also contain a minimum of 10 percent butterfat as well as at least 1.4 percent egg yolk solids.
- **Sherbets** have a butterfat content of between 1 and 2 percent and have a slightly higher sweetener content than ice cream. Sherbet weighs a minimum of 6 pounds to the gallon and is flavored with either fruit or other characterizing ingredients.

- **Gelato** is characterized by an intense flavor and is served in a semifrozen state. Gelato contains sweeteners, milk, cream, egg yolks, and flavoring.
- **Sorbet and water ices** are similar to sherbets, but they contain no dairy ingredients.
- A **quiescently frozen confection** is a frozen novelty such as a water-ice novelty on a stick.
- **Frozen yogurt** consists of a mixture of dairy ingredients, such as milk and nonfat milk, that have been cultured, as well as ingredients for sweetening and flavoring.

Dippin' Dots' Growth from Its Origins²³

The growth of Dippin' Dots Inc. has been recognized in the United States and the world by industry watchdogs such as *Inc.* magazine, which ranked Dippin' Dots as one of the 500 fastest-growing companies two years in a row, in 1996 and 1997. Dippin' Dots Franchising Inc. ranked number 4 on *Entrepreneur* magazine's 2004 list of the top 50 new franchise companies, and it achieved the 101st spot on *Entrepreneur's Franchise 500* for 2004. In 2005 Dippin' Dots ranked number 2 as a top new franchise opportunity and climbed to number 93 on the Franchise 500 list. By the end of 2009, Dippin' Dots had slid to the 175th position on *Entrepreneur's Franchise 500* list.²⁴ And by 2017 Dippin' Dots had fallen to the 382nd position.²⁵ Exhibit 2

shows the growth of franchises for Dippin' Dots. Exhibit 3 shows the growth trajectory of revenue and productivity, and Exhibit 4 lists key corporate milestones.

Despite the company's initial success, the achievements of Curt Jones and Dippin' Dots did not come without obstacles. Once Jones had perfected his idea, needing to start a company for the new process of flash-freezing ice cream, like many new entrepreneurs he enlisted the help of his family to support his endeavor. It was essential to start selling his product, and he had no protection for his idea from competitors.

The first obstacle confronting Jones was the need to locate funding to accomplish his goals. He needed money for the patent to protect his intellectual property, and he needed seed money to start manufacturing the ice cream once the patent was granted. At the same time that Jones was perfecting the flash-freezing process for his ice cream, he was also working on a Small Business Administration (SBA) loan to convert the family farm into one that would manufacture ethanol. However, instead of using the farm to produce the alternative fuel, Jones's parents took out a first, and then a second, mortgage to help fund Jones's endeavor. Thus, Jones initiated the entire venture by self-funding his company with personal and family assets.

Unfortunately, the money from Jones's parents was enough to pay for only the patent and some crude manufacturing facilities (a liquid nitrogen tank in his parents' garage).

EXHIBIT 2 Dippin' Dots Franchise Growth

Year	U.S. Franchises	Canadian Franchises	Foreign Franchises	Company Owned
2016	120	1	13	1
2015	115	1	13	1
2014	116	1	13	1

Source: www.entrepreneur.com.

EXHIBIT 3 Dippin' Dots Revenue and Productivity Growth

Year	Revenues (in millions)	Productivity (Revenue/Employee)	Total Employees
2015	\$34.80	\$185,000	170
2014	\$32.85	\$185,000	170
2013	\$31.26	\$180,000	170
2012	\$29.87	\$175,706	165
2011	\$27.70	\$167,879	170
2010	\$26.70	\$157,059	180
2009	\$33.90	\$188,333	190
2008	\$36.00	\$189,474	190

Source: www.privco.com/company/dippin-dots-inc, author estimates.

EXHIBIT 4 Dippin' Dots Milestones

1988	Dippin' Dots is established as a company in Grand Chain, Illinois.
1989	First amusement park account debuts at Opryland USA in Nashville.
1990	Production facility moves to Paducah, Kentucky.
1991	Dealer network is established for fair, festival, and commercial retail locations.
1994	First international licensee is set up (Japan).
1995	New 32,000-square-foot production facility opens in Paducah.
1997	Production facility expands by 20,000 square feet; company earns spot on <i>Inc.</i> 500 list of fastest-growing private companies in the United States.
2000	Dippin' Dots Franchising Inc. is established, and first franchise is offered; litigation against competitors is initiated to protect patent.
2001	Dippin' Dots enlists 30 new franchisees. <i>Franchise Times</i> magazine lists Dippin' Dots third in the United States in number of ice cream franchise locations, behind Baskin-Robbins and Dairy Queen.
2002	Dippin' Dots Franchising Inc. achieves 112th spot on <i>Entrepreneur</i> magazine's Franchise 500 list, ranks 69th on its list of the fastest-growing franchise companies, and is named the number 1 new franchise company. Dippin' Dots becomes a regular menu offering at McDonald's restaurants in the San Francisco Bay area.
2003	Dippin' Dots Franchising Inc. achieves 144th spot on <i>Entrepreneur</i> magazine's Franchise 500 list and number 4 on <i>Entrepreneur's</i> list of the top 50 new franchise companies. Dippin' Dots opens the Ansong manufacturing plant, 80 miles south of Seoul, South Korea.
2004	Dippin' Dots Franchising Inc. ranks number 4 on <i>Entrepreneur's</i> Top 50 New Franchise Companies list and achieves 101st spot on <i>Entrepreneur</i> magazine's Franchise 500 list. Curt Jones and Dippin' Dots are featured on a segment of the <i>Oprah Winfrey Show</i> , appearing in 110 countries. Dippin' Dots is featured among the top 10 ice cream palaces on the Travel Channel. Curt Jones is quoted in Donald Trump's best-selling <i>The Way to the Top</i> (p. 131).
2005	International Dairy Foods Association names Dippin' Dots Best in Show for Dot Delicacies. Dippin' Dots also wins three awards for package design. Dippin' Dots Franchising Inc. ranks number 1 on <i>Franchise Times</i> magazine's Fast 55 list of the fastest-growing young franchises in the nation. Ice cream cake and ice cream sandwiches (Dotwiches) are introduced to launch the Dot Delicacies program.
2006	Company leadership is restructured. Curt Jones becomes chairman of the board. Tom Leonard becomes president of Dippin' Dots Inc. Dots 'n Cream, conventional ice cream enhanced by beads of Dippin' Dots, is introduced for market testing in Kroger stores in the Midwest. The 200th franchisee begins operations.
2007	Dippin' Dots is available in Colombia, and www.dippindots.com V.5 is launched.
2008	Dippin' Dots Franchising Inc. ranks 112th on <i>Entrepreneur's</i> Franchise 500 list.
2009	Curt Jones returns to running the day-to-day operations of the firm. Dippin' Dots slides to 175th on <i>Entrepreneur's</i> Franchise 500 list.
2010	Dippin' Dots has 3 million Facebook fans.
2011	On November 4, 2011, Dippin' Dots files for chapter 11 bankruptcy.
2012	On May 18, 2012, the purchase of Dippin' Dots by Scott Fischer, president of Dippin' Dots LLC, is approved by U.S. Bankruptcy Court; Scott Fischer joins the team as president.
2013	Dippin' Dots begins distribution to pharmacies and convenience stores to increase access.
2014	Dippin' Dots enters <i>Guinness World Records</i> book for producing the largest number of ice cream cups with a team of five in 3 minutes.
2016	Dippin' Dots teams up with the singer/songwriter Dawin for exclusive remix dessert.

Source: Dippin' Dots Inc. Undated. History. www.dippindots.com/more-info/history.html.

He next had to open a store, and doing so required even more money—money that Jones and his family did not have. They were unable to get the SBA loan because, while the product was novel and looked promising, there was no proof that it would sell. So Jones and his newly appointed CFO (his sister) went to an alternative lender who lent them cash at an exorbitant interest rate that was tacked on to the principal weekly if unpaid.

Now in possession of the seed money they needed, Jones and his family opened their first store. Its summer-time opening created a buzz in the community. The store was mobbed every night, and Dippin' Dots was legitimized by public demand. With the influx of cash, Jones was able to move his manufacturing operation from his family's garage into a vacant warehouse. There he set up shop and personally made flash-frozen ice cream for 12 hours every day to supply the store.

After the store had been operating for a few months, the Joneses were able to secure small business loans from local banks to cover the expenses of a modest manufacturing plant and office. At the same time, Jones's sister made calls to fairs and other events to learn whether Dippin' Dots products could be sold at them. Luckily for the Joneses, the amusement park at Opryland in Nashville, Tennessee, was willing to have Dippin' Dots as a vendor. Unfortunately, the first Dippin' Dots stand was placed in front of a roller coaster, and people generally did not want ice cream before they went on a ride. After a few unsuccessful weeks, Jones moved the stand and business picked up considerably. Eventually, the Joneses were able to move to an inline location, which was similar to a store, where Dippin' Dots had its own personnel and sitting area to serve customers.

Through word of mouth, interest in Curt Jones and Dippin' Dots spread. Soon other entrepreneurs contacted Jones about opening up stores to sell Dippin' Dots. A dealership network was developed to sell ice cream to authorized vendors and provide support with equipment and marketing. During that time, Jones employed friends in corporate jobs. Dippin' Dots grew into a multimillion-dollar company with authorized dealers operating in all 50 states and internationally.

The result was a cash inflow for Dippin' Dots franchising. A franchise location was any mall, fair, national account, or large family entertainment center. According to the franchising information in 2016, the initial franchise fee was \$15,000, with an estimated initial investment ranging from \$112,204 to \$376,950. In addition, franchisees are required to pay a variable royalty fee.

The Ice Cream of the Future

Dippin' Dots is counting on youthful exuberance to expand growth. "Our core demographic was pretty much 8- to 18-year-olds," said Terry Reeves, former corporate communications director. "On top of that, we're starting to see a generation of parents who grew up on Dippin' Dots and are starting to introduce the products to their kids." Although

Dippin' Dots seems to appeal more to youngsters, the product still has to have staying power as customers grow older. As one individual commented, "How can this stuff keep continuing to call itself the 'ice cream of the future'? Well the future is now, folks, and they have been pushing this sorry excuse for ice cream off on me at amusement parks and zoos since I was a little kid."²⁶

In 2002 McDonald's reportedly spent \$1.2 million on advertising to roll out Dippin' Dots in about 250 restaurants in the San Francisco area. Jones called the deal "open-ended" if it worked favorably for both firms. However, by 2007 Dippin' Dots was available only at a few McDonald's franchises in southern California. Storage and transportation issues were problematic, and the price of the product, 5 ounces for \$5, was too steep for all but the die-hard Dippin' Dots fans.

In other marketing efforts, Dippin' Dots ads were running in issues of *Seventeen* and *Nickelodeon* magazines. Additionally, Dippin' Dots hired a Hollywood firm to place its ice cream in the background of television and movie scenes, including the 2003 *Cheaper by the Dozen*. In 2002 the Food Network's *Summer Foods: Unwrapped* showcased Dippin' Dots as one of the most unique and coolest ice cream treats. 'N Sync member Joey Fatone ordered a Dippin' Dots freezer for his home after seeing a Dots vending machine at a theater the band rented in Orlando. Caterers also sought Dippin' Dots for their star clients. A birthday party at the home of NBA star Shaquille O'Neal featured Dippin' Dots ice cream. Dippin' Dots continues to pursue the celebrity word-of-mouth route by serving its products at events such as the MTV awards and celebrity charity functions.

Dippin' Dots' sales come from approximately 131 franchisees, 90 percent of which have multiple locations.²⁷ Dippin' Dots has met with increased competition in the out-of-home ice cream market. The major threats to Dippin' Dots are other franchise operations, such as Ben & Jerry's, Häagen-Dazs, Baskin-Robbins, Carvel, Dairy Queen, and newcomers such as Cold Stone Creamery, Maggie Moo's, and Marble Slab Creamery (see Exhibit 5).

Although one dealer commented that Dippin' Dots used incoming franchise fees from royalties on sales for its own corporate means rather than for improvements in franchise support, most dealers converted to the new franchise system. Dippin' Dots Franchising Inc. grandfathered existing dealers' locations by issuing a franchise and waiving the franchise fee for the first contract period of five years. Many dealers had to renew their contracts in 2004. While many were initially apprehensive of converting to a franchise system, fewer than 2 percent left the system, and the firm has shown franchise growth.

Meltdown?

In an attempt to counteract the copycat threats from Frosty Bites and Mini Melts, Dippin' Dots brought a patent infringement lawsuit against them in 2005. However,

EXHIBIT 5 Ice Cream Franchises, 2016

Franchise	Start-Up Costs	Number of Franchises
Baskin-Robbins Ice cream, frozen yogurt, frozen beverages	\$943–402K	7,728
Ben & Jerry's Ice cream, frozen yogurt, sorbet, smoothies	\$156K–486K	582
Bruster's Real Ice Cream Ice cream, frozen yogurt, ices, sherbets	\$264K–1.32M	192
Camille's Ice Cream Bars Ice cream, shakes, frozen yogurt	\$152K–553K	2
Carvel Ice cream, ice cream cakes	\$250K–383K	417
Cold Stone Creamery Ice cream, sorbet	\$52K–467K	1,263
Culver Franchising System Inc. Frozen custard, specialty burgers	\$1.84M–4.15M	574
Dairy Queen Ice cream, burgers, chicken	\$361K–1.83M	6,711
Dippin' Dots Franchising LLC Specialty ice cream, frozen yogurt, ices, sorbet	\$112K–377K	135
Freddy's Frozen Custard LLC Frozen custard, steakburgers, hot dogs	\$606K–1.18M	234
Fro.Zen.Yo Frozen yogurt	\$354K–588K	9
The Haagen-Dazs Shoppe Co. Inc. Ice cream, frozen yogurt	\$154K–542K	205
Happy Joe's Pizza, pasta, sandwiches, salads, frozen yogurt	\$310K–1M	54
Kona Ice Shaved-ice truck	\$117K–136K	814
Marble Slab Creamery Ice cream, frozen yogurt, baked goods	\$293K–381K	343
Menchie's Self-serve frozen yogurt	\$218K–385K	496
Milani Gelateria Gelato	\$176K–242K	1
Paciugo Gelato Caffé Gelato, beverages	\$101K–455K	37
Popbar Gelato, sorbetto and frozen yogurt on a stick	\$217K–457K	23
Red Mango - Yogurt Cafe & Juice Bar Frozen yogurt, smoothies, juices, wraps	\$297K–415K	314
Repicci's Italian Ice Italian ice and gelato	\$152K–176K	47

Continued

EXHIBIT 5 *Continued*

Franchise	Start-Up Costs	Number of Franchises
Rita's Italian Ice Italian ice, frozen custard, gelato	\$150K–439K	621
Ritter's Frozen Custard Frozen custard	\$365K–1.10K	20
Sloan's Ice Cream Ice cream, candy, toys, novelty items	\$588K–596K	9
Stricklands Frozen Custard Frozen custard, ice cream, yogurt, sorbet	\$188K–315K	4
Sub Zero Ice Cream Ice cream, yogurt, custard, smoothies	\$161K–386K	53
Tasti D-Lite Frozen desserts	\$234K–423K	60
Yogurtland Franchising Inc. Self-serve frozen yogurt	\$310K–702K	326

Source: *Entrepreneur*. Ice cream franchises. As of January 30, 2017, www.entrepreneur.com/franchises/categories/ffajcecr.html.

during the jury trial, Dippin' Dots' testimony in support of the original patent revealed that Jones had made sales of the beaded ice cream product to over 800 customers more than a year before submitting the patent application. Even though Jones argued that these sales were for the purpose of market testing and that the production method had subsequently been further refined, and therefore was deserving of a patent, the court rendered the patent non-enforceable because these sales were not disclosed to the Patent Office. An appeal by Dippin' Dots was denied in 2007, and the patent was declared invalid.²⁸

Mini Melts, released from the lawsuit, continued to expand its manufacturing facilities throughout the world; it has plants in South Korea, the Philippines, the United Arab Emirates, Hong Kong, and China as well as the United Kingdom and the United States. Instead of having franchises, Mini Melts sells dealerships for vending machines and kiosks carrying its products. One year Mini Melts CEO Tom Mosey was nominated by Ernst and Young as Entrepreneur of the Year and Mini Melts has been listed in the *Inc.* 500 for two separate ventures over the years.

By 2009 Dippin' Dots had billed itself as the "Ice Cream of the Future" for over 20 years. However, Dippin' Dots was close to a meltdown. Founder Curt Jones said that Dippin' Dots "just got hit by a perfect storm" of soaring operating costs and plummeting sales. Jones resumed daily control over the troubled Dippin' Dots after a three-year break from operations. He let go President Tom Leonard, who had run Samsonite before joining Dippin' Dots in August 2006, and Operations Vice President Dominic Fontana, who had earlier spent about 17 years with Häagen-Dazs. Jones described the separations as amicable and regrettable.

In spite of these challenges, Jones, always the inventor, invested in R&D to create a conventional ice cream product that has super-frozen dots embedded in it and withstands conventional freezers while preserving the super-frozen dots in the ice cream. Called Dots 'n Cream and available in berry creme, caramel cappuccino, mint chocolate, orange creme de la creme, vanilla bean, vanilla over the rainbow, wild about chocolate, and banana split, this product was introduced for market testing in Kroger stores in the Midwest in 2006. Thus, Dippin' Dots was finally on the verge of having a take-home ice cream option. As of April 2011, the Dots 'n Cream product was still available only in a few locations but could be bought online.

By 2010, Dippin' Dots had started an online venture by selling some of its products through its website. Customers could order ice creams, yogurts, and sherbets online, and the items would be delivered to their doors.

A new product line introduced by Dippin' Dots was Dot Delicacies. A new product in this category was Dot Treats. As of April 2011, there were seven different Dot Treats: Solar Freeze, sundaes, floats, shakes, Clusterz, Quakes, and LOL (lots of layers). These products were available at most of the retail locations where Dippin' Dots ice cream was sold.

As mentioned earlier in this case, the company branched out and released a series of coffee-based products. The "coffee dots" were new concepts in coffee-frappé and espresso that could be eaten by spoon or could be made into hot coffee drinks by just adding water and milk. Again, another untapped market Jones and his team tried to enter was the market of healthy ice cream. The new low-fat frozen beaded dessert named "Chillz," made with an all-natural sweetener, was introduced by Dippin' Dots as a healthier alternative to ice cream.

This product was developed with public schools in mind and was being distributed in schools through vending channels.

Despite the development of all the new products, the company's experience and resource base are clearly in the ice cream manufacturing and scoop-shop retailing businesses. Dealing with supermarket chains and vending distribution firms is an ongoing challenge for this relatively small firm. However, with a penchant for innovation (from Curt Jones) and an infusion of business acumen and capital (from Scott Fischer), Dippin' Dots is optimistic about the future, focusing on what it is good at, and looking to recapture attention in the frozen novelty industry.

ENDNOTES

1. Dippin' Dots sales up 60 percent in 2013-15, company expects additional 25 percent increase in 2016. http://www.franchising.com/news/20160524_dippinrsquo_dots_sales_up_60_percent_in_201315_.com.html.
2. Saving the ice cream of the future. *Profile Magazine*, <http://profilemagazine.com/2013/dippin-dots/>.
3. Dippin' Dots Franchising LLC, Franchise information. Jason Daley, entrepreneur staff, Punita Sabharwal. <https://www.entrepreneur.com/franchises/dippindotsfranchisingllc/289468>.
4. www.nydailynews.com/life-style/eats/dippin-dots-maker-declares-bankruptcy-ice-cream-future-files-chapter-11-reorganization-article-1.973683.
5. www.dippindots.com/news/2012/04/Purchase-Agreement.html.
6. *Ibid.*
7. www.dippindots.com/news/2013/01/Expand-Manufacturing.html.
8. Dippin' Dots Inc. 2010. Dippin' Dots Chillz frozen treat. *VendingMarketWatch.com*, January 7, www.vendingmarketwatch.com/product/10110602/dippin-dots-chillz-frozen-treat.
9. Perna, G., & Fairbanks, B. 2010. From the future to the present. *Food and Drink Digital*, March 24, www.foodanddrinkdigital.com/reports/dippin-dots-future-present.
10. Associated Press. 2006. Business blazing for supercold Dippin' Dots. July 23, www.msnbc.msn.com/id/14001806.
11. Ice cream's origins are known to reach back as far as the second century BC, although no specific date of origin is known and no inventor has been indisputably credited with its discovery. We know that Alexander the Great enjoyed snow and ice flavored with honey and nectar. Biblical references also show that King Solomon was fond of iced drinks during harvesting. During the Roman Empire, Nero (AD 54-86) frequently sent runners into the mountains for snow, which was then flavored with fruits and juices. Information from International Dairy Foods Association, Ice Cream Media Kit.
12. The idea of using liquid nitrogen to make ice cream has been around in scientific circles for some time. To learn how to make ice cream this way at home, see www.polsci.wvu.edu/henry/icecream/icecream.html. See also Kurti, N., & This-Benckhard, H. Chemistry and physics in the kitchen. 1994. *Scientific American*, April: 66-71; and www.subzeroicecream.com/press/coldfacts2006.pdf.
13. www.quotes.wsj.com.
14. Anderson, G. 2005. America's favorite ice cream. *CNN/Money.com*, July 29, money.cnn.com/2005/07/25/pf/goodlife/summer_ice_cream.
15. <https://www.statista.com/statistics/326315/global-ice-cream-market-size/>.
16. Author estimates; and Dairy Facts, International Ice Cream Association, www.idfa.org.
17. Murphy, K. 2006. Slabs are joining scoops in ice cream retailing. *New York Times*, October 26, www.nytimes.com/2006/10/26/business/26sbiz.html.
18. Moskin, J. 2006. Creamy, healthier ice cream? What's the catch? *New York Times*, July 26, www.nytimes.com/2006/07/26/dining/26cream.html. Note: *Slow churned* and *double churned* refer to a process called low-temperature extrusion, which significantly reduces the size of the fat globules and ice crystals in ice cream.
19. Murphy. 2006. Slabs are joining scoops in ice cream retailing.
20. <https://www.entrepreneur.com/franchises/konaice/334197>.
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22. All definitions are taken from International Dairy Foods Organization (IDFA). Undated. What's in the ice cream aisle? www.idfa.org/news-views/media-kits/ice-cream/whats-in-the-ice-cream-aisle/.
23. Dippin' Dots 10th anniversary promotional video.
24. *Entrepreneur*. 2015. 2015 Franchise 500 rankings, www.entrepreneur.com/franchises/rankings/franchise500-115608/2009-4.html.
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27. www.entrepreneur.com.
28. Jones, L. 2010. Dippin' Dots spends millions on patent invalidity. *Noro IP*, November 15, www.noroip.com/news-blog/dippin-dots-spends-millions-on-patent-invalidity/.