

## Ritter's buyer embarking on custard chain turnaround



Scott Olson May 12, 2010

The once-formidable Ritter's Frozen Custard chain could be on the cusp of a turnaround under new ownership that is embarking on a plan to have 100 locations within five years.

New York-based TruFoods, which bought the company in May 2008 for an undisclosed price, has spent the past two years revamping the business model and now is seeking new franchisees.

TruFoods should have commitments signed for about 10 new franchises in 2010, with a goal of opening four of those by the end of the year, said Gary Occhiogrosso, the company's chief development officer.

"We basically took a step back," Occhiogrosso said. "We took a look at what worked and a good focused look at things that weren't working as well."

Ritter's has 17 stores in Indiana, including nine in the Indianapolis area. Overall, it has 31 locations in six states, or about half as many as the chain had just five years ago before problems began plaguing its former owners.

Hoosiers have been passionate about Ritter's handmade frozen custard ever since it launched in Franklin more than 20 years ago. Yet while the ice cream is sweet, the story of the former mom-and-pop company's attempt to grow is anything but.

John Ritter and his wife, Bonny, started the company in 1989. At the time, it was a novelty—frozen custard made fresh each day inside a retro-looking circular building that featured only outdoor seating.

The chain boasted 18 locations in 2000. By 2005—its peak—it had 60.

But the company's former CEO, Saul Lemke, who acquired control in 2003 (with the Ritter family retaining a major stake), was roundly criticized by franchisees for expanding too quickly while neglecting daily operations.

The Ritter family reacquired control in 2004, installing John's son Bob as CEO. But the damage had been done.

TruFoods specializes in buying and turning around underperforming brands. The company's other holdings include Arthur Treacher's Fish & Chips, Pudgie's Famous Chicken and Wall Street Deli.

The handmade frozen custard remains the cornerstone of what drove Ritter's past success. But new offerings such as Italian ice

and, for the health conscious, tart frozen yogurt and sugar-free custard, have been added in an attempt to appeal to a larger customer base.

Perhaps even more important, TruFoods is branching out from the traditional, free-standing modular units that can be expensive for a franchisee to purchase and usually are only open seasonally, which can dampen sales potential.

TruFoods' expansion plans include Ritter's locations in shopping centers and in existing restaurants or convenience stores. The company also has plans for more so-called scoop shops, in which the custard is not actually made on the premises.

A franchisee's initial investment can be as little as \$72,500 for a shop inside an existing restaurant or as high as \$750,000 for a free-standing unit, according to TruFoods' franchise disclosure document filed with the Indiana Secretary of State.

Steve Delaney, a partner at the Indianapolis-based SiteHawk Retail Real Estate brokerage and former owner of several ice cream shops, supports the new strategy.

"Going into more traditional locations that are anchored would help," he said. "Most of their locations are secondary and destination locations, which was a big part of their problem."

TruFoods wants to expand in states where it already has locations: Indiana, Florida, Michigan, Ohio, New York and Texas.

Tim Mallet, a Ritter's franchisee who operates a free-standing shop in Warsaw in northern Indiana and another in Portage, Mich., has witnessed firsthand the transition of ownership from the Ritter family to TruFoods.

After spending 10 years as an Eli Lilly and Co. sales representative in the Kalamazoo, Mich., area, Mallet became business partners in 2000 with a former Lilly colleague who had opened a Ritter's. Mallet since has purchased his partner's share of the business.

Under Ritter ownership, Mallet appreciated that he could speak directly to John Ritter when he had questions or concerns. Conversely, though, the wherewithal to implement marketing and long-range planning strategies was lacking, he said.

The tradeoff in dealing with a large corporation that might not be as responsive is that it has the resources to assist in brand development and management issues, Mallet said.

"It's neither good nor bad," he said. "It's just different."

What's remained the same, however, is the influx of competition. Since Mallet opened his shop, rivals Cold Stone Creamery, Culver's, Marble Slab Creamery and Sonic have located within two blocks of him.

"I'm paying my bills," he said, "but it's not like it used to be."

Mallet has the safety net of his full-time job as a director of pharmacy at a community health center. Still, he's anticipating an economic turnaround this year.

Occhiogrosso at TruFoods is confident his company can help reverse the decline of the Ritter's franchise as well.

"It's still an inexpensive treat," he said of the frozen custard. "You can take your family to a Ritter's and still not break the bank."