Ice Cream Rivals Prepare to Wage a New Cold War

By Deborah Ball

Get ready for some new temptations. Ice cream may soon be as ubiquitous as a can of Coke, and a once-quaint, balkanized market will become more modern, more national, more streamlined — indeed, more like the rest of the U.S. food industry — if Nestlé SA and Unilever have their way. Now that the Federal Trade Commission has approved Nestlé’s acquisition of Dreyer’s Grand Ice Cream Inc., the two multinationals are preparing to engage in the ice cream wars.

Unilever, the Anglo-Dutch giant, has been the clear ice cream leader, with its Good Humor, Ben & Jerry’s and Breyers brands holding 17% of the U.S. market. Swiss giant Nestlé, owner of the Haagen-Dazs and Drumstick brands, retains a similar share after buying Dreyer’s.

Distribution headaches long made ice cream the province of small local dairies. Americans eat most of their ice cream in restaurants and scoop shops, but for the big nationals, some 80% of consumption occurs at home. Unilever and Nestlé hope to crack more of the away-from-home market, largely by adopting Coca-Cola Co.’s mantra of selling its products wherever consumers might happen for them. “You always want that product to be an arm’s length away,” says Eric Walsh, chairman of Unilever’s $1.5 billion North American ice cream business.

That means exploiting on-the-go outlets, such as convenience stores, gas stations, video shops and vending machines — a strategy the two rivals have already executed in much of Europe, where branded ice-cream freezers are visible everywhere. “There are hundreds of potential points of distribution,” says Tyler Johnson, executive vice president for marketing at Dreyer’s.

True or not, some consumers view ice cream as a healthy alternative to chips and candy. Kazi Ahmed, 41 years old, who works in the bakery business in New York City, says he started eating ice-cream bars when he first came to the U.S. from Bangladesh nine years ago. Two or three times a week he eats a Haagen-Dazs coffee almond crunch bar. “Chips are junk food, but ice cream is real food,” Mr. Ahmed says. The packaging gets a thumbs-up, too, “I have complete faith...”
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that it’s packed very hygienically,” he says.

Five national brands—Haagen-Dazs, Nestlé, Ben & Jerry’s, Breyer’s and Dreyer’s—are shaking up the category, churning out snazzy new products and flavors. Their focus has been on so-called novelties, single-serving products such as Dreyer’s Starbucks Frappuccino bars and Ben & Jerry’s Peace Pops. These frozen treats carry high profit margins, in some cases 15% to 25% higher than those of the “tubs” shoppers buy in supermarkets, according to consulting firm Accenture.

Novelties’ higher margins can open new distribution doors. Space in a freezer cabinet costs five times as much as normal shelf space for a retailer, due to maintenance and electricity. Until recently, only big supermarkets could afford to devote a lot of space to ice cream. “Retailers think very carefully what to put in that freezer,” says Jeff Smith, global managing partner for Accenture’s consumer goods practice.

Unilever, Nestlé and Dreyer’s have been pushing to place logo-covered freezer cabinets in stores, arguing that retailers’ profits on ice cream are higher than on candy bars and gum. In the U.S., Unilever already sells ice cream in hundreds of Toys ‘R’ Us, True Value, Blockbuster and Family Dollar stores out of branded freezers. Its out-of-home products are growing at about 10% a year, compared with about 8% for supermarket sales.

Under the terms of the proposed settlement with the FTC announced yesterday, Nestlé will be allowed to keep the Dreyer’s distribution network. The system is a major advantage in that it delivers ice cream directly to more than 85% of U.S. grocers. By contrast, Unilever must go through middlemen to deliver most of its Good Humor and Breyers products. Dreyer’s deep penetration with supermarkets is an ideal base from which Nestlé could expand, adding more “drops” to the trucks’ route, such as cinemas and gas stations, with little extra cost.

Indeed, Dreyer’s figures there are anywhere from 100,000 to a quarter-million potential nongrocery outlets nationwide. “Our intent is to be the Frito-Lay of ice cream,” says a Dreyer’s spokeswoman.

The strong supermarket ties also may help Nestlé get ice cream into grocers’ competitive prepared-foods section. Nestlé would like to see convenient ice cream “bunkers” placed in deli and hot-foods sections, so that time-starved shoppers picking up dinner could grab dessert, too.

As part of the FTC approval, Nestlé agreed to sell a number of Dreyer’s secondary brands, such as Godiva, Whole Fruit and Dreamery, to Canada’s CoolBrands International Inc. But analysts say Nestlé will easily fill the pipeline with new products. Wider distribution will make it easier for Dreyer’s to sign more licensing deals like the one it has with Walt Disney Co. for a “Finding Nemo” ice cream product. Nestlé’s candy connection will also come in handy as Dreyer’s cranks out more double-branded products, along the lines of Nestlé Butterfinger ice cream or Unilever’s Klondike Caramel & Peanut bars with Planters peanuts.

The bottom line? Brace yourself for even more flavor combinations. Says Accenture’s Mr. Smith, “If you go through their array of brands in candies and think of what’s already been turned into an ice cream, it’s a pretty short list.”

—Kimberly Palmer contributed to this article.