

# Freeze Tag

## Led by iconic Slurpee, FCBs enjoy cool lift in activity

By Jerry Soverinsky

It's the home opener for the 2008 Chicago Cubs, and the neighboring 7-Eleven, just steps away from Wrigley Field, is churning with activity. The range of personalities and cultures that routinely descend on this c-store is diverse, a melting pot of post-college frat boys, suburban partygoers and Boys Town locals. Throw in a Cubs home game with 60-degree temperatures on a cloudless April afternoon, and it's no wonder the store clerks appear frazzled.

By the Slurpee station, a 14-ish baggy-pants-pulled-down-to-his-knees boy is filling his jumbo-sized cup with a half-dozen flavors. His story follows that of his predecessors, a youthful generation that is "frozen" in time. More specifically,

they are the poster children of the frozen carbonated beverage (FCB) population.

Traditionally offered in frozen Coke and cherry varieties from a few fountain heads, the category has seen a recent upswing in activity. While 7-Eleven's Slurpee is the Xerox of FCB, retailers channel-wide are adding more fountain heads and expanding flavor choices, all in an effort to capitalize on the high-profit margins that FCB offers.

In the category of cold dispensed, FCBs undoubtedly is a niche player with particular seasonal appeal, but also one that has evolved into a year-round player flavored with margin appeal. The bottom line, retailers say, is that FCBs, when executed effectively, are a prof-

itable contributor to a category that, while jumping nearly 2% in sales, slumped 3.6% in gross margin, according to recently released 2008 NACS State of the Industry numbers.

"The beauty of frozen carbonated beverages begins and ends when you talk about margin," explains John Ryckevic, who managed 7-Eleven's Slurpee category for more than 20 years before becoming director of the self-explanatory company Frozen Beverages Dispensers, based in San Antonio. "You've got CO<sub>2</sub> (carbon dioxide), a very inexpensive ingredient, plus syrup and water." He's talking quickly now, not salesman-like, but as a person with a deep understanding of the frozen-beverage category.

"When you take a 12-ounce cup and fill it with frozen beverage, it's light and fluffy. Now if you place that 12-ounce beverage in a microwave and melt it, you're left with only 6 ounces of syrup and water. See, there's 100% expansion with CO<sub>2</sub>. And because of that, the frozen carbonated beverage offers a much better margin than just about any other drink a c-store sells. You get anywhere from 12 to 20 points higher margin than you get with a fountain drink. And that's not taking into consideration that fountain drink margins have shrunk a bit."

He pauses momentarily, before adding enthusiastically, "It's a very unique category."



**FREEZE FRAME:** Kids and teens frequently mix multiple flavors of 7-Eleven's Slurpee to create their own custom beverages.

### Where It All Began

Created in 1959 by a Kansas hamburger-

stand owner who at first used an automobile air conditioner to freeze carbonated soft drinks into a sherbet-like consistency that could be sipped through a straw, the frozen carbonated beverage was modestly received. A more practical machine was built and marketed, and the drink's popularity spread; by the mid-1960s, approximately 300 of the machines had been sold. In 1965, the category received its "coming-out party" when 7-Eleven stores began licensing the machine. (7-Eleven's FCB was originally called the Icee, a name that it changed to Slurpee in 1967; see sidebar, below.)

As today's unofficial leader of the frozen-beverage category, the Slurpee's popularity cuts across every demographic and culture. The drink has achieved iconic status, a result of its ubiquity (it's sold at every one of 7-Eleven's 7,400 North American c-stores) and innovative marketing approach. It's an integral product for the chain.

"Slurpee plays a huge role because our FCB is the iconic Slurpee brand," says



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**GREG DEAN** *Circle K*

7-Eleven spokesperson Margaret Chabris. "Our Slurpee beverages have big personalities and are destination drivers."

Indeed, the chain's latest "Summer of Slurpee" promotion reflects the drink's growing popularity, a phenomenon that it works hard to cultivate by aligning the Slurpee with pop-culture elements.

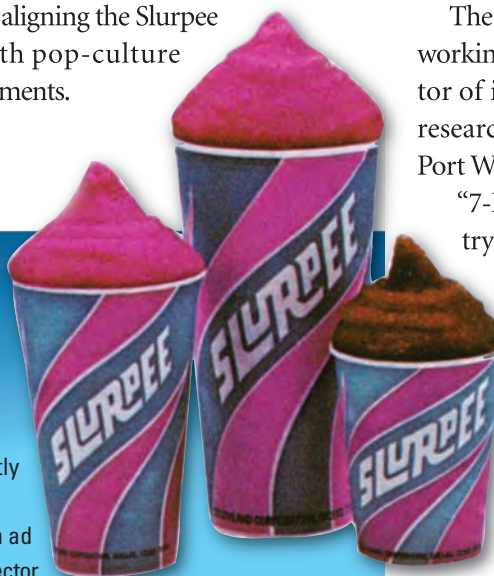
"Our proprietary brand and our research shows that Slurpee drinkers are fans of movies and video games," says Chabris. "We've been able to engage a number of movie studios and video-game companies to partner with us in mutually beneficial promotions."

The strategy is one that is obviously working, says David Portalatin, director of industry analysis for market-research specialist The NPD Group, Port Washington, N.Y.

"7-Eleven has long been the industry leader in this category," Portalatin says. "Almost 11% of 7-Eleven c-store shoppers report buying a frozen beverage on their most recent visit compared to only 3% industrywide."

And he says it's not difficult to see why. "The reason is 'Slurpee,'" Portalatin says. "7-Eleven invented the category and to this day maintains category leadership. So much so that 'Slurpee' has almost become the default name for a frozen beverage like 'Kleenex' is to tissue or 'Xerox' to photocopiers."

But just because 7-Eleven is a category leader doesn't spell bad news for other c-store retailers. On the contrary,



## SLURPEE<sup>®</sup> *by the Numbers*

### Did You Know ...

- ▶ Slurpees are served fountain-style at a tightly controlled 28 degrees.
- ▶ The name "Slurpee" was coined in 1967 at an ad agency brainstorming session. Bob Stanford, director of 7-Eleven's in-house Stanford Agency, remarked that the drink produced a "slurp" sound when coming through the straw.
- ▶ Coke and cherry remain the most popular Slurpee flavors. The rest of the top five: Blue Raspberry, Crystal Light Raspberry Ice and Mountain Dew.
- ▶ The see-through Slurpee Strata cup was launched in 1998, affording Slurpee-ers the opportunity to see the fruits of their layered creations. While its introduction was intended as a seasonal offering, it quickly became a consumer favorite and is now a mainstay Slurpee cup.
- ▶ 7-Eleven sells nearly 13 million Slurpees every month.
- ▶ Detroit residents consume the most Slurpees in the United States—even during winter.





**MR. FREEZE?:** Amp Energy Freeze melds Slurpee with an energy drink. 7-Eleven also partnered with Paramount Pictures so “Iron Man” could get in on the Slurpee action as well.

7-Eleven’s category investment will have a trickle-down effect for others, generating valuable category awareness. “Any additional focus in this category by 7-Eleven is likely to have a significant impact on the category as a whole,” Portalatin says.

Circle K’s Greg Dean, director of foodservice for the retail giant’s Southeast region, agrees. “In markets where 7-Eleven operates, [competing in the FCB category] can be a challenge, but the smaller retailer can also use this consumer awareness to their advantage. Being in stock and having machines clean and operational are key.”

Portalatin maintains that keeping pace with consumer trends is just as important.

“Anything new in regard to flavors will likely provide some lift,” Portalatin says. “Keep it new and fresh. Make core flavors a staple, but always be willing to have something new or different, even on a temporary basis.”

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**DAVID PORTALATIN** *The NPD Group*

Don’t rest there, Portalatin continues. Differentiation alone won’t sell product; retailers have to promote the line. “When focus is placed on the category and supported with effective communications, this category can be a point of differentiation in the marketplace,” Portalatin says. “You’ve got to get the word out.”

### Coming (Very) Soon

What’s next for 7-Eleven and FCBs? Chabris isn’t saying, but she references the Slurpee Web site ([www.slurpee.com](http://www.slurpee.com)) for clues. Front and center on the site’s landing page: an Amp Energy Freeze Slurpee. It’s a natural category extension, and one that Chabris sees as offering huge benefits for the category.

“Very large potential,”

she says, “as you will see at 7-Eleven in the coming months. Stay tuned.” FCBs and energy drinks? The combination was a foreseeable development, reflecting the popularity of the energy-drink category [CSP—March ’08, p. 55]. But it took a bit of time to develop just the “right mix.”

“Every time you work on new drinks and formulas, there’s a process,” Ryckevic says. “With energy drinks, it [took] more time in development because you wanted the product to behave like it does as a sugar drink. But the ingredients were getting in the way of the foaming agents. Once that [conflict] was resolved, you’ve got an energy-drink FCB that’s very appealing to consumers.”

Retailers agree and see tremendous opportunity in the category. “Customers are definitely looking for energy in multiple forms, and frozen is a perfect option,” Dean says. “For most retailers, the capital and space need will be an issue, but for those who can pull it off, it can be a big boon.”

Dean says start-up costs for FCBs are more than nominal. However, he provides specifics that might prove helpful as retailers evaluate the risks for enter-

ing the FCB marketplace.

"Equipment costs and execution at the store level are two of the biggest issues," Dean says. "Some equipment is very expensive, but there have been some good advances made in the last few years to try to drive down costs, while at

shopper and more than other beverage category buyers. Adding flavor selections will be a key for retailers to gain a competitive advantage in this category."

Circle K's Dean says his company is finding similar buying preferences at its stores. "Customers are more demanding concerning variety," he says. "Just as we expand offers in the cold vault, fountain, coffee, etc., we need to do the same with frozen to keep up with the demand for variety."

7-Eleven's Chabris agrees, and says 7-Eleven has invested heavily in developing diverse offerings: "[We offer] 10 to 12 flavors on average, and 16 to 17 in the summer."

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**JOHN RYCKEVIC**

*Frozen Beverages Dispensers*

the same time making the units more visually appealing, customer-friendly and, finally, operator-friendly. This is extremely important when it comes to execution at the site level."

Bottom-line investment numbers? "We typically run our models at a 25% ROI," he says.

### **Manage Expectations**

Despite numbers that show energy drinks to be a hot category, Portalatin says retailers should manage expectations and put the numbers in perspective when predicting energy-drink FCB sales.

"Adding energy to the frozen beverage category will provide some lift, but it is a relatively small opportunity compared to some other possible flavor extensions such as 'cola,' for example," he says.

As such, he says that success will come from overall variety.

"Thirty-seven percent of frozen-beverage buyers say that 'selection' was among their reasons for choosing the store [where] they purchased," Portalatin says. "This is more than 16 percentage points higher than the average c-store

### **Into the Future**

So for the foreseeable future, the upsides seem generous. And not just because of creative opportunities. While the traditional economic model for a successful category translates into increased competition, FCBs are anything but traditional.

"The thing to think about with frozen carbonated beverages," says Ryckevic, "is the relative lack of competition within the c-store. And you don't get that with any other beverage."

"One of the reasons the fountain drink hasn't seen so much growth of late," he continues, "is the intense competition from the cold vault, like water, juice, energy drinks and athletic drinks. You've got Coke in the fountain, and Coke in the cold vault; Gatorade in the fountain, Gatorade in the cold vault. But the beauty of frozen carbonated beverages: It's the only frozen drink you're going to get. There's really no competition. It's a frozen beverage. And that makes it unique." ■