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The Cereality Acquisition: Big Ideas Live

Having proved the viability of a cereal-based restaurant concept, the entrepreneurial creators of Cereality Cereal Bar & Cafe are turning the brand over to Kahala-Cold Stone to guide its future growth. Cereality co-founder David Roth tells R&I Executive Editor Scott Hume why the concept works and why it was time to find a strategic partner.

Kahala-Cold Stone's acquisition of **Cereality Cereal Bar & Cafe**—announced July 12—is more than simply another example of a corporate buyout; it is a lesson in the power of consumer buy-in to an idea.

So says David Roth, who with partner Rick Bacher opened the first of Chicago-based Cereality's seven locations four years ago.

"It's a phenomenal thing that when we came out with our first press release in 2004, we had a little store at Arizona State University. It was 18 feet by 10 feet and it served cereal to college kids," says Roth. "Our press release said, '95% of Americans like cereal; 57% like sex. We've got cereal.' That press release about a little store on a college campus started a conversation—worldwide—about big ideas, about innovation and entrepreneurship.

"I think it tapped into the zeitgeist of the American dream. It was, 'Gosh, I could think about doing something completely upside down and make a business around it.' So I was stunned by how much Cereality resonated with people around the world, but at the same time, there was an inherent need, a consumer demand that we knew existed and that we met."

Selling the Cereality concept to Scottsdale, Ariz.-based Kahala-Cold Stone—which franchises a dozen foodservice concepts, including Blimpie, Cold Stone Creamery and Surf City Squeeze—makes both business and personal sense, Roth explains. "I'm genetically geared to be entrepreneurial. There's a certain time frame where I can keep my interest and then I need to move on the next thing. And I think both [Rick and I] reached that point with Cereality.

"We're not restaurateurs; we're not restaurant operators. We surrounded ourselves with good [operations people] but it always was our intention to build a model for a business that could be run by experts," he says. "And when we saw that interest in franchising was so strong—there were 7,000 or 8,000 people contacting us saying, 'We want to franchise it'—we said let's look for a strategic partner who can do this."

Companies that wanted to buy, not just franchise, Cereality also were plentiful, and they came courting early on. Roth says that Kahala-Cold Stone was attractive because of, rather than in spite of, the number of quick-service brands already in its portfolio.

"There are so many synergies around the methodology of a scoop shop [such as Cold Stone Creamery] and Cereality, as well as



Roth (l.) and Bacher



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economies of scale that come from their distribution and real-estate muscle. Those are things that I as an entrepreneur was constantly struggling with. How do you raise enough money to get the absolute best real estate? How do you get your food costs in line when you only have four or five stores? Those are big obstacles to a small entrepreneur and huge opportunities to a Kahala-Cold Stone," Roth says.

Asked if he worries about his concept becoming diluted or overextended under stewardship of a billion-dollar parent, Roth says his confidence in the abilities of Kahala-Cold Stone principals Kevin Blackwell and Doug Ducey (read the R&I Interface interview with Blackwell and Ducey) is why he and Bacher agreed that company was the right partner.

"Of course there's concern at any stage—whether we run it or someone else runs it—that if you're not hyper-vigilant about maintaining the culture and the brand there can be trouble. But I'm the first to say Cereality can take many forms. It can be a wonderful success if it's co-branded with another concept; it may not. I think the key we found in running the company—and that I hope Doug and his team will continue—is the value of trial and error. You learn from doing and you make mid-course corrections," Roth says.

"I'm hoping there will be a lot of experiment with different formats. See how the consumer responds; see if "the Saturday morning experience" is being delivered. If it is, continue on, and if it's not, make a change. But the brand is so strong [Kahala-Cold Stone] doesn't really have to invent that, they can just inherit that and be true to it."

Cereality's first location was at Arizona State and others have since opened near the campuses of the University of Pennsylvania in Philadelphia; Penn State University in State College, Pa.; and Northwestern University in Evanston, Ill. But Roth believes the brand's appeal is not limited to any one demographic.

"For us [campuses were] a starting point because we felt that if college kids saw Cereality as hip and cool and relevant, they would embrace it, own it with that "My Cereality" attitude—like a YouTube or iPod attitude—and then that would spread and make Cereality recognizable with other demographics. And that's what happened," he says.

"But what's very interesting was that the appeal the brand had for families was even stronger than for college students. It makes sense because you have mom and dad and a couple of kids and they each have a particular way of eating cereal. They all get to express that individuality at Cereality and it's a very happy, positive friendly experience."

The Cereality operating in Newark (N.J.) Liberty International Airport has done well, Roth says, and a location at New York City's JFK International Airport is scheduled to open later this month. "Travelers gravitate to it as a healthy option, and I think that will continue to be an opportunity Kahala-Cold Stone," he says.

Roth already is at work on the Next Big Thing. He has formed a company, Idea Stewards, that will work with organizations "looking for guidance on innovation."