

Krispy kreme doughnuts - strategic analysis



**ASSIGN
BUSTER**

Veron Rudolph created the first Krispy Kreme store on June 13, 1937 and from that opening led it to become a large corporation. The bakery first envisioned selling doughnuts to nearby food marts. These grocery stores would act as a middleman to get the Krispy Kreme doughnuts to the public. However, the public had a different idea. As passerby's would walk near the bakery, they began asking if they could purchase a doughnut from Rudolph while it was hot. After many inquiries, Rudolph opened the bakery and began its retail service to the public.

Company History

Rudolph used the method of hand-cutting the doughnuts until the 1950s. It was then that the process was automated by machinery. This led Krispy Kreme in a positive direction to providing the public with a continuous doughnut-making process.

As the store grew in size and popularity, Krispy Kreme decided to become a publicly traded company. This occurred in April of 2000. It sold initial stocks for \$10 per stock. The company's stock prices soared. By 2003 the stock trading prices has increased over 400 percent, trading stock at approximately \$50.

During 2005 the company became aware of significant accounting irregularities. The Krispy Kreme CEO, Scott Livengood, was driven out of his position and the company quickly worked on repairing the damage. The New York and The Securities and Exchange Commission soon focused on digging into the financial irregularities. Inquisitions led to many federal lawsuits for the company. While many had a basis, several lawsuits contained outlandish.

Overall, most lawsuits had a settlement outside the court of law and things began to be set aright for the corporation. (Book, 26)

At this time, stock prices hit an extreme low, selling for only \$4 a share. As time continued and settlements came, the stocks increased to \$8 in 2007 during the second quarter. Unfortunately, the company continued to report a negative net income, showing the difficulties of recovering from the aforementioned financial irregularities. In an effort to curb the low net income, Krispy Kreme resorted to dramatically cutting prices and implemented cost-effective practices. From the year 2005 to 2007, Krispy Kreme lowered its employee numbers from 6, 982 to 4, 759. The reduction of labor allowed for expansion into several new foreign countries. Krispy Kreme operates in several foreign countries. These ten foreign countries include: the United Kingdom, China, Canada, Indonesia, Australia, Kuwait, Japan, the Philippines, Mexico and South Korea. (PDF, 25)

Vision Statement

A company's vision statement show what the company strives for in the future. Every decision made in the present revolves around that determination to see the vision statement come true. Krispy Kreme's vision statement says, " Our vision is to be the worldwide leader in sharing delicious tastes and creating joyful memories." The vision is clear on what Krispy Kreme wishes to accomplish through future endeavors. Its goal to be a worldwide leader provides the basis for its expansion into foreign countries around the world. The vision for delicious tastes show that the company wants to continue providing high quality doughnuts to its customers. This ensure the customers that the expansion into a worldwide market will not

make the company sacrifice its doughnut quality. And lastly, striving for a joyful experience composes its vision of customer service. It shows that Krispy Kreme has a desire to make a trip to its locations the most pleasant possible. This vision sets the stage for a profitable product. It leads room for growth and expansion while still remaining close to the values in which the company was founded upon.

Mission Statement

The mission statement should expound upon the goal of the vision. Krispy Kreme proclaims their mission statement as, “ Our mission is to touch and enhance lives through the joy that is Krispy Kreme .” Although the vision statement was written clearly with succinct descriptions of what the future of Krispy Kreme will be, the mission statement lacks depth and preciseness. Perhaps a mission statement written in this fashion would be more suitable, “ Our mission is to reach every culture throughout the world with our delicious doughnut. We will provide quality service and product to everyone that walks through our doors.”

Krispy Kreme’s current mission statement is too broad and, therefore, undefined. Krispy Kreme was founded on providing the customer what he or she wants. This is why the founder, Verdon Rudolph, cut a hole in the wall of his bakery: he wanted to make the customers happy. While Krispy Kreme’s mission statement states that, it does not show any depth in how it will come to pass.

Not providing the employee and company owners with a solid mission statement makes the entire corporation vulnerable to destruction. Each

Krispy Kreme store must understand what the corporation is trying to accomplish throughout the world. For true understanding to occur, a clear mission must be set before the owner of every individual store.

China and India's economies in 2007 grew steadily by 11.5 and 8 percent and are expected to grow about the same for the next few years. With a weak US dollar this will make US products and technologies more affordable in Europe and Asia. Also, popularity of premium drinks continues to grow and adding them on the fast food menus. The industry as a whole is also expected to grow 7.9 percent in last 5 years. As we become more health conscious popularity of diets which do not place strict limitations on lower fat, carbohydrate, and sugar content also are rising.

Threats

With the US economy in a slump the consumers are spending less. Growing concerns regarding health is also a threat, in that consumers are now more aware of heart problems caused by being overweight. Krispy Kreme Doughnuts' competitor's sales grew and Starbucks opened a substantial amount of new stores in 2006. USDA is now projecting 2008 food prices could increase as much as 4.5 percent, which is the top end of their 3.5 percent to 4.5 percent projection.

A Competitive Profile Matrix (CPM) will measure Krispy Kreme Doughnuts external position compared to its competitors to perform. Starbucks and Tim Horton's are the major competitors that will show Krispy Kreme Doughnuts' particular strengths and weaknesses.

In the CPM Krispy Kreme Doughnuts needs a vast improvement in many areas when compared to the overall comparative advantage Starbucks has. Krispy Kreme needs to improve on the most are financial position, market share, and advertising. Krispy Kreme desperately needs to change its financial position and focus on improving their net income. Tim Horton's areas of risk are mainly global expansion because there are mainly based in Canada. Many challenges face Krispy Kreme, but if they are handled correctly they will have a bright future.

Looking at these financial ratios is the start to the internal assessment of Krispy Kreme Doughnuts. The Debt To Equity Ratio shows that the company has a majority of the debts provided by creditors versus the owners. Krispy Kreme's current ratio also shows that for every dollar in current liabilities the company has \$1.76 in current assets, which means they are able to meet their short-term obligations. Krispy Kreme has a negative 740% profit margin. The solvency debt to equity ratio is 1.33, which means that for every dollar in equity the company has \$1.33 in long term liabilities.

Strengths

Although Krispy Kreme has a large debt they have reduced negative net income from -\$198 million in January 2005 to -\$42 million in January 2007. There are 296 stores open in US and 123 internationally and there are plans to open additional 200 stores abroad. Brand name recognition, strong tradition, and recognizable menu. Corporate web site is well designed and navigable and offers many items for sale. Addition of frozen drinks to its menu. All Krispy Kreme doughnuts are cooked in 100 percent vegetable oil.

Open late hours to cater to travelers. Hot Doughnuts Now sign lures in potential customers.

Weaknesses

The company's stock has tumbled from \$50 per share to \$ 2. 50 per share and most Wall Street analysts recommend the stock as a " strong sell." The company recently hired new CEO, James Morgan, to replace the old CEO Daryl Brewster. This makes Mr. Morgan Krispy Kreme's third CEO in 4 years. Last quarterly revenue growth was -11. 70 percent compared to 18. 60 percent of direct competitor, Tim Horton's, for the same period. The company has completely withdrawn from the big city markets such as Boston and Chicago. The doughnuts have the high content of calories and fat, such as Original Glazed with 200 calories and 12 grams of fat that is 18 percent of daily value. The coffee brand offered has only 4 different roasts and no other caffeinated drinks except for drip coffee. Force substantially large capital of \$30 million for foreign franchisees.