

# Strategic mangement(krispy kreme)

Business



**ASSIGN  
BUSTER**

P r o j e c t o f Strategic Management Case StudyKrispy KremeDoughnut

HAILEY COLLEGE OF COMMERCE UNIVERSITY OF THE PUNJAB We are

thankful to ALLAH (all mighty) for guiding us and giving us power and

courage. Project submitted: Sir Ishfaq Ahmed This project is based on our course of S.

M. We have tried to utilize our knowledge about the subject which was taught by our professor. S. M is a vast field and it was a bit difficult for us to cover it all at our learning phase. We have applied many concepts of S.

M to the case study We are very much thankful to our Sir Ishfaq Ahmedfor teaching us this important subject with all dedication and interest.

It was very necessary for us to understand the real concepts of S. M. for our future practical working life. Project prepared by: Bilal Raja 792 Krispy Kreme Doughnut History and Growth The founder, Vernon Rudolph, worked for his uncle, Ishmael Armstrong, who purchased a secret recipe for yeast-raised doughnuts and a shop on Broad Street in Paducah, Kentucky, from Joseph LeBeouf of Lake Charles, Louisiana. Rudolph began selling the yeast doughnuts in Paducah and delivered them on his bicycle.

The operation was moved to Nashville, Tennessee, and other family members joined to meet the customer demand. The first store in the nation with the Krispy-Kreme name opened on Charlotte Pike in 1933. Rudolph sold his interest in the Nashville store and in 1938 opened a doughnut shop in Winston-Salem, and began selling to groceries and then directly to individual customers. The first store in North Carolina was located in a rented building on South Main Street in Winston-Salem in what is now called historic Old

<https://assignbuster.com/strategic-mangementkrispy-kreme/>

Salem. The Krispy Kreme logo was designed by Benny Dinkins, a local architect.

By the 1960s, Krispy Kreme was known throughout the southeastern United States, and it began to expand into other areas.

In 1976, Krispy Kreme Doughnut Corporation became a wholly owned subsidiary of Beatrice Foods of Chicago, Illinois. The headquarters for Krispy Kreme remained in Winston-Salem. In 2003, a pilot project in Mountain View, California, to sell doughnuts through car windows and sunroofs at a busy intersection (with wireless payment) failed. On February 19, 2007, Krispy Kreme began selling the Whole Wheat Glazed doughnut in an attempt to appeal to the health conscious.

The doughnut has twenty Calories fewer than the original glazed (180 vs. 200) and contains more fiber (2 grams vs.

0.5 grams). As of January 2008, the trans-fat content of all Krispy Kreme doughnuts was reduced to 0.5 of a gram or less. The U. S.

Food and Drug Administration, in its guidelines, allow companies to round down to 0 g in its nutrition facts label even if the food contains as much as 0.5 of a gram per serving. Krispy Kreme benefited from this regulatory loophole in its subsequent advertising campaign, touting its doughnuts as “trans-fat free” and having “0 grams trans-fat! Krispy Kreme began another phase of rapid expansion in the 1990s, opening stores outside the southeastern United States where most of their stores were located. Then, in December 2001, Krispy Kreme opened its first store outside the U. S.

in Mississauga, Ontario, Canada, just outside Toronto. Since 2004, Krispy Kreme has rapidly expanded its international operations. On April 5, 2000, the corporation went public on the NASDAQ using the ticker symbol KREM. On May 17, 2001, Krispy Kreme switched to the New York Stock Exchange, with the ticker symbol KKD, which is its current symbol.

On January 18, 2005, Krispy Kreme announced Stephen Cooper, chairman of financial consulting group Kroll Zolfo Cooper LLC, as interim CEO. Cooper replaces Scott Livengood, who the company said has retired as chairman, president, CEO and a director.

The company also named Steven Panagos, a managing director of Kroll Zolfo, as president and COO. Although based on informal advertising such as word-of-mouth, in 2006, Krispy Kreme moved into television and radio advertisements, beginning with its “ Share the Love” campaign with heart-shaped doughnuts. Vision and Values

Our Vision • To be the global leader in doughnuts and complementary products, while creating magic moments worldwide. Our Values (with acknowledgement to Founder, Vernon Rudolph) we believe...

- Consumers are our lifeblood, the center of the doughnut
- There is no substitute for quality in our service to consumers
- Impeccable presentation is critical wherever Krispy Kreme is sold
- We must produce a collaborative team effort that is unexcelled
- We must cast the best possible image in all that we do
- We must never settle for “ second best”; we deliver on our commitments
- We must coach our team to ever-better results

Mission statement We create the tastes for good times and warm memories for everyone, everywhere. With our Original Glazed doughnut as our signature and standard, we will continually improve our customer's experience through:

- Innovative ideas
- Highest quality, and
- Caring service

Financial/ business performance Environmental analysis Internal factors Strong brand recognition and recall Wide appeal of signature glazed doughnuts Vertical integration Development in international markets Strong channel of distribution Quality of product Expanded assortment of offerings at KKD stores including beverages Doughnut machine technology.

Perishability of product Limited product line (heavy reliance on doughnut sales) Overextended (i. e. , Montana Mills acquisition) Lack of locations in some areas Pricing in some locations External factors Increasing popularity of coffee shops and bakery cafes Popularity of American foods and fashion in overseas markets Growth in two-income households Americans continue to experience time-starvation Entertaining opportunities moving from home to work environment Technological advancements (i. e.

paperless ordering, predictive modeling software, hand held computers for delivery drivers) Channel expansion possibilities (i. e. , Internet pre-ordering) Competitors like Dunkin Donuts and Starbucks Low-carb trend in eating preferences All-natural, organic, healthy eating trends Cultural differences in breakfast and snack foods Increase in eating at full-service restaurants combined with a decrease in the use of fast-food restaurants S. W. O.

T analysis Strengths 1. Affordable, high-quality doughnuts with strong visual appeal and “ one-of-a-kind” taste 2.

Neon “ Hot Doughnuts Now” sign encourages people outside the store to make an impulse purchase 3. Market research shows appeal extends to all major demographic groups including age and income 4. “ Hot shop” stores save money while keeping KKD customer experience intact 5. Vertical integration helps ensure high quality product 6.

Consistent expansion; now in 16 countries 7. Product sold at thousands of supermarkets, convenience stores, and retail outlets through U. S.

Weaknesses 1. Return on equity, assets, and investments all negative in the trailing twelve months; skill of mgmt.

s questionable 2. Shareholders have not received dividends recently, and are not expected to in near future; stock price in state of flux 3. Closing stores when stores should be opening globally at steady rate to keep up with competitors’ growth 4. Management states in recent 10-K that it is struggling with how to make stores profitable 5. Product line slow to expand with nothing Threats 1.

Dunkin’ Donuts presently dominates the doughnut market, particularly in northeastern U. S. 2. People are becoming more healthconscious, which does not bode well for highsugar, high-fat treats 3.

Starbucks has approximately 25 times the amount of stores worldwide that Krispy Kreme Donut has 4.

Restricted cash flow from banks and massive layoffs have stifled the world economy, decreasing discretionary income 5. Europeans prefer their local brands of Opportunities 1. Families crave convenience because of busy lifestyles 2. Asians love sweets and are open to trying foreign foods 3.

<https://assignbuster.com/strategic-mangementkrispy-kreme/>

Starbucks lacks a diversified and distinctive pastry line 4. Dunkin' Donuts does not have hot doughnuts to sell 5.

Many children love sweet treats 6. Tim Horton has yet to expand beyond the U. S. and Canada, and its product line does not appear to be competitive 7. South America, Africa, and Southern Asia are markets to conquer outside “sweet treats” to draw in healthconscious customers 6.

Advertising not aggressive enough to appeal to areas outside southeast of U. S. where most stores are 7. Revenues down, net losses in each of past three years 8. Per 10-K, continued disputes with franchisees could hurt future business doughnuts 6. Britons tend not to have cars, which inhibits drive-thru customers, and their eating habits and office etiquette differ from Americans 7.

Shareholders may sell KKD stock for lack of returns and dividends compared to other similar firms in the industry SO Strategies 1. TV, radio, and print ads demonstrating 27 varieties of doughnuts against non-descript pastry offerings by Starbucks (S3, O3) 2. All store signs in supermarkets and conveniences where product is sold have picture of young child eating a Krispy Kreme doughnut (S7, O5) 3. Continued grand openings of stores in highly-populated cities such as Sao Paulo, Brazil & Johannesburg, South Africa (S6, O7) ST Strategies 1.

Compare “hot” doughnut appeal of Krispy Kreme Donut to cold doughnuts of Dunkin' Donuts in TV and Internet ads (S1, T1) 2. Do “roadshow” across Europe as means of advertising, driving truck and mobile “hot shop” to

major European cities and filming their reactions for European ads (S2, S4, T5, T6) 3.

Express strengths and outline concrete strategies in clear format within 10-K in order to restore shareholder confidence in future of Krispy Kreme Donut (S1-S7, T7) WT Strategies 1. Expand product line with low-calorie foods (W5, T7) 2. Recruit top executive talent from other WO Strategies 1.

Make doughnuts filled with fruit, put fruit cups on menu, and develop wide variety of fresh fruit smoothies; offer ways to incorporate nuts and protein into foods (W5, O3) 2. Aggressive Internet ads demonstrating the appeal of Krispy Kreme Donut hot doughnuts (W6, O4) 3. Open small but profitable “hot shops” in South America, Africa, and Southeast Asia in order to expand globally (W3, O7) fast-food firms (W1, T7) 3.

Survey franchisees to discover ways to repair business relationships and retain growth of franchise model; study McDonald’s model for tips (W8, T1, T3) I. F. E E. F. E C.

P. M Space matrix Boston Consulting Group Matrix (BCG)

Krispy Kreme Donuts has three business segments, and they are presented here along with their annual revenues per Form 10-K filed on April 17, 2009: Company Stores (\$266M), Franchise (\$26M) and Krispy Kreme Supply Chain (\$93M), with approximately \$384M in total revenues for the year ending February 1, 2009. This means that each business segment represented the following percentage in revenues: Company Stores (69. 2%), Franchise (6. 7%), and Krispy Kreme Supply Chain (24.



1%). Profits for each business segment are as follows: Company Stores (\$-2M); Franchise (\$18M); and KK Supply Chain (\$25M), for a total of \$41M in profits.

Therefore, Company Stores has 0% of the profits; Franchise has about 41%; and Krispy Kreme Supply Chain has about 59%. We'll assume that Company Stores has 3% of the market share and a -13% growth rate; Franchise has 3% of the market share and a 10% growth rate; and Krispy Kreme Supply Chain has 3% of the market share and -7% growth rate. Grand Strategy (GS) Matrix Recommendations 1- Reduce operating expenses (down-size individual stores) Lower Costs of Doing Business • reduce operating costs per individual store by changing average size of stores from 2500-4500 sq. ft. range to 1500-2000 sq ft. Potential for 30 – 50 % decrease in operating cost on a cost per square foot basis. I. Change entire manufacturing and distribution strategy – Implement par baked manufacturing operation • to allow individual stores to decrease in size, thus lowering per store operating costs to a more appropriate level for sales volume • Increased efficiency – smaller workforce per store, par-bake allows for minimal waste – inventory as needed (important b/c fresh goods – low shelf life • Par bake will allow for “ hot doughnuts now” all of the time. Implications of transition to par bake operation • New Plant Equipment – freezers, production equipment, freezer trucks for distribution/delivery. • Store Equipment – freezers, oven for various par baked goods, fryers for doughnuts.

• R for unique par bake operation, doughnuts still to be fried and glazed on site. II. Sale of Plant and Equipment -sell Effingham plant • Potential buyers

are large scale baked-goods manufacturers • Sara Lee Corporation • Entenmann's (George Weston Bakeries Distribution) • Harlan Bakeries, Inc. Estimated value of 10.5 – 12 million. III.

Remove “ doughnut theater” from 95% of locations, doughnut theater can be part of a select few Flagship locations only. (3 – 5 Stores) 2- Develop stronger relations and control of franchisees I. Short-term period of one year – postpone new franchise agreements/new store openings II. Implement Franchise Support Systems • Communication – between corporate and franchisees • Support – training, advertising • Utilize recommendation #1 in order to lower operating expenses for franchisees. – Implement Marketing Strategies I.

Advertising – national television and radio advertising campaign based on “ hot doughnuts now”. II. Marketing research – periodic research to stay abreast of trends. III. R&D – product development 4- Strengthen Competitive Advantage • Strengthen Competitive Advantage through differentiation in products and services. I.

Continue to utilize “ hot doughnuts now” II. Expand product line • Account with A&S “ New York” Bagels (par-baked). Par baked will allow for “ Hot Bagels Now”.