

Krispy kreme financial analysis case study



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Introduction

Krispy Kreme Doughnuts, Inc. is one of the world's leading retailers and wholesalers of doughnuts and packaged sweets. The company owns and franchises Krispy Kreme doughnut stores which make and retail varieties of doughnuts and a wide range of coffees and other beverages. It operates about 530 stores both locally and in foreign countries like Australia, Canada, Indonesia, and Mexico among other countries. The company is headquartered in Winston-Salem in North Carolina, the US Krispy Kreme Doughnuts, Inc.

In this paper financial analysis is done between Krispy Kreme and average industry which is comprised of other companies in the restaurant industry for example the Starbucks and McDonalds.

Financial Ratio Analysis

Some of the key ratios analyzed in this case study includes the following: Return on Equity (ROE), Return on Assets (ROA), Return on Investments (ROI), profitability, margins and returns, liquidity and leverage, financial position and efficiency ratios.

Quick ratio: This is the measuring of liquidity ratio which is done by comparing current assets minus inventories divided by current liabilities. Krispy Kreme's quick ratio is 1.73, while the industry's is 0.69. This is a very positive ratio for the firm because it indicates that the firm has a competitive advantage over the industry when it comes to its ability to pay off its debt. i.e. its ability is superior as compared to that of the industry.

Inventory turnover ratio: this is cost of the goods sold divided by inventory. The firm's turnover ratio is 20.03. This means that the company is able to sell their inventory in 18 days on average as compared to the industry's turnover which is 31.78 hence can sell their inventory in 11 days. From the fact that Krispy Kreme is a very liquid company, as far as speed of inventory is concerned, there are a little behind them.

Return on Assets (ROA): this is the key indicator in evaluating how the management is generating profits from operations. ROA is net income divided by total assets. The Krispy Kreme ROA is 12.28, while that of the industry is 9.15 and this considerable difference in the ratios means that the firm has a huge advantage in that for every dollar in total assets, Krispy produces \$12.12 in net income as the industry produces \$9.15; therefore it means that Krispy Kreme is good in using its assets to produce more income and thus high profit margin.

Price-to-sales multiple of the Krispy Kreme's is significantly higher (4.64) as compared to that of the industry (1.63) which means that it's very positive for medium to large sized firm.

The price-earnings multiple of the Krispy Kreme's is 16.18 while that of the industry is 21.73. This from investors perspective indicate that Krispy Kreme is extremely overpriced as compared to its competitors and earnings will continue to increase hence the company is more likely to increase their stock which is a generally a good sign for the company.

SWOT analysis of Krispy Kreme

Strengths

Krispy Kreme's has the capability to align its strategy and execution of its brand potential. They have their priorities set on having both brand value and internal cultural values. Using their brand as a platform, it has developed strategies such as promoting, understanding and protecting their brand, penetrating complementary, offering off-premises channels of sells, and linking everything they do.

Also, Krispy Kreme are very committed to organization building through adaptation of common values of integrity, learning, sharing, authenticity and having positive expectations. Adopting commitment values affects both internal and external relationships which then serves as a stage for all policies and programs.

Krispy Kreme has limited challenges in developing a successful strategy in standard market cycle meaning that they can easily satisfy its customers needs which works to their advantage when it comes to competitive edge.

Also their Doughnut theater experience combined with clever marketing creates a myth for consumers. Krispy Kreme relies on word of mouth before which they flood the market with memorabilia including T-shirts and hats forming an unpaid loyalty base.

Their strongest marketing focus is their charitable efforts through wholesale charges to charities and giveaways and by doing this they emphasize on their value on commitment to the community.

Upgrading their extranet to a more standardized, browser interface where administrators can sign specific resources required by users for their framework while protecting important information from their competitors has proven to be a competitive advantage for the company. Here, information can be delivered to customers and employees anytime anywhere. Also, it allows the firm to operate more efficiently and stay ahead of competition while avoiding high hidden costs of technology ownership. In addition to the use of internet, customers can be emailed regular newsletters about the company and this removes the excessive costs of printing and distribution.

Weaknesses

A looming problem for Krispy Kreme firm is the low inventory turnover ratio which currently averages approximately eighteen days as compared to the industry average of nine days. If not attended to quickly the firms supply line will continue to cost more money and reduce future profits.

The financial condition of Krispy Kreme is superior to that of its competitors but does have some areas that need improvement. Krispy Kreme's young management is showing that they want to be cautious and have employed an almost zero tolerance policy regarding debt.

Opportunities

Diversification strategy should be considered. Given the fact that its customers enjoy their sweetness of their doughnuts suggest that they also enjoy the prevailing environment. Perhaps by allowing customers to see the

actually process of cooking and glazing the doughnuts will go along way to attracting more customers while keeping them loyal.

Since doughnuts are generally morning consumption, other freshness for the rest of the day should be explored for instance diversifying into fresh baked breads for evenings or deli-type sandwiches throughout the day.

Despite the fact that Krispy Kreme strategy of upgraded extranet services works well for the company now, there is an opportunity to consider alternatives in altering or expanding the same to suit the continuous growth of the company as they enter new markets.

Threats

Other trends such as the recurrence of health food manias and other consumer preference issues are also threats to Krispy Kreme's potential especially in terms of customer numbers.

Krispy Kreme needs to continuously reinvent their strategies to stay ahead in terms of competition as other company's in the same industry are posing serious competition in regard to doughnut tastes e. g. LaMar's Doughnuts is the biggest prospective threat to Krispy Kreme since they go to its customers by operating neighborhood bars and in high traffic areas.

One of the most troubling financial indicators for Krispy Kreme are their market value ratios (p/cf, p/b etc) which indicates that in the current market they are valued higher than their counterparts

Conclusion

Considering the financial analysis of Krispy Kreme, the firm is performing well in the industry and still has a great potential of even doing better.

Analysis shows that the firm is still new in the market and has been able to differentiate itself and its products from its competitors. This therefore indicates that Krispy Kreme has bright future.