Krispy Kreme: Will Dough Continue to Flow to Shareholders?

Launched in 1937, Krispy Kreme Doughnuts is a branded specialty retailer of premium doughnuts. Its Original Glazed doughnut is the firm’s most recognizable product. However, Krispy Kreme’s commitment to innovation results in frequent tests of potential new doughnuts such as its whole wheat 180-calorie doughnut introduced in 2007. More recently (2010), it has introduced the triple chocolate doughnut and two new doughnuts with banana flavor, the Banana Pudding doughnut and the Banana Caramel Cake doughnut. New products that are well received by customers are then added to the stores’ inventory of doughnuts. The variety of flavors Krispy Kreme can incorporate into its doughnuts is virtually endless.

As this brief discussion suggests, Krispy Kreme uses a differentiation strategy. It seeks to sell its premium doughnuts to customers who value the doughnuts’ uniqueness. The firm’s Doughnut Theatre is a source of differentiation between Krispy Kreme and its competitors. The Doughnut Theatre is the in-store manufacturing process customers can watch to see employees make doughnuts.

Are Krispy Kreme doughnuts really significantly different from competitors’ offerings? As we noted earlier, some differentiation is tangible, while other differentiation may be more psychological in nature. Some believe that Krispy Kreme’s uniqueness is more psychological than tangible. One analyst even suggested, “It isn’t what’s inside a Krispy Kreme doughnut thqat creates the demand. It’s what’s inside the customer’s head that makes a Krispy Kreme a Krispy Kreme.” Regardless of the nature of the differentiation, Krispy Kreme achieved great success with its differentiation strategy for many decades.

However, the situation began to change for Krispy Kreme in 2004. Essentially, Krispy Kreme over-expanded, taking on significant debt in the process. One indicator of the seriousness of the change is the firm’s stock price. After hitting a high of more than $50 in March 2003, it fell to roughly $7.50 per share in February 2005.

Firms can’t control events in the external environment, but those events can significantly affect a firm’s performance. The diet craze and the desire to be more physically fit is a trend in the general environment that is having a major effect on Krispy Kreme. Stated simply, the firm’s doughnuts are high in fat, high in carbohydrates, and high in sugar. In addition, Krispy Kreme was investigated for alleged accounting irregularities. The firm tried to respond to the problems with appropriate actions. It brought in a turnaround specialist for a stint as CEO, and a new permanent CEO was named in 2006. Additionally, the whole wheat doughnut was a response to concerns about high calories. Finally, the company removed all grams of trans fat from its products. Yet, its sales continued to decline. After the stock price fell to a new all-time low of under $3 per share, the CEO resigned in January 2008. Some investors suggested that Krispy Kreme should expand further into international markets. Yet it already has stores in 10 foreign countries outside the United States. The new CEO, James Morgan, hired thereafter faced significant challenges to decide what strategic actions can be taken to turn around the once highly successful company. He announced plans to improve the customers’experience in the stores, making them more family oriented. He also explained that the firm was working on improving the shelf life of its doughnuts. His actions seem to be working as the company announced that it achieved breakeven performance in fiscal 2010. In fiscal 2011, it plans to open about 55 more stores to add to its current set of 582 stores. Finally, a profit is projected for fiscal 2011.