

## KRISPY KREME MATRICES/REPORTS

### Current Strategies and Objectives

Per pages 26 and 27 of its Form 10-K (annual report) filed April 17, 2009, Krispy Kreme Donuts has listed the following as its current objectives:

1. Reduce the investment required to produce a given level of sales and reduce operating costs by operating smaller satellite stores instead of larger, more expensive factory stores .
2. Achieve greater production efficiencies by centralizing doughnut production to minimize the burden of fixed costs.
3. Achieve greater consistency of product quality through a reduction in the number of doughnut-making locations.
4. Enable store employees to focus on achieving excellence in customer satisfaction and in-shop consumer experience.
5. Stimulate an increase in on-premises sales of doughnuts and complementary products by increasing the number of retail distribution points to provide customers more convenient access to the company's products.

Regarding strategies, the Form 10-K filed April 17, 2009 notes a few:

1. Open up new (or convert traditional factory stores to) "hot shops" that provide a hot doughnut experience for customers throughout the day, instead of the traditional experience of having the hottest, freshest doughnuts available only at certain times of the day---these "hot shops" would be added to the traditional fresh shops and kiosks as the primary methods for market penetration while reducing operating costs.
2. Open up new company-owned satellite stores for additional market penetration.
3. The company also plans to extend its testing of soft serve dairy products into additional locations in fiscal 2010 as part of its product development.
4. Close stores that are not performing to company standards.

### Vision

Krispy Kreme Donuts "Vision and Values" can be found on their web site (<http://investor.krispykreme.com/includes/stupop.html>).

"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"

### Vision Statement

From Krispy Kreme Donut's "Vision and Values" provides the following Vision Statement: "To be the global leader in doughnuts and complementary products, while creating magic moments worldwide."

Competitive Profile Matrix (CPM)

Critical Success Factors	Weight	Dunkin' Donuts		Starbucks		Tim Hortons	
		Rating	Score	Rating	Score	Rating	Score
Advertising	0.11	4	0.44	3	0.33	2	0.22
Product Quality	0.15	3	0.45	3	0.45	2	0.30
Product Diversity	0.08	2	0.16	1	0.08	2	0.16
Price Competitiveness	0.08	3	0.24	2	0.16	3	0.24
Management	0.10	3	0.30	3	0.30	2	0.20
Financial Position	0.10	3	0.30	2	0.20	3	0.30
Customer Loyalty	0.10	4	0.40	3	0.30	3	0.30
Global Expansion	0.13	3	0.39	4	0.52	1	0.13
Market Share	0.10	3	0.30	3	0.30	1	0.10
Sales Distribution	0.05	2	0.10	3	0.15	2	0.10
<b>Total</b>	<b>1.00</b>		<b>3.08</b>		<b>2.79</b>		<b>2.05</b>

1. Analysis: Please analyze the information presented above and discuss what conclusions you can draw from this information.

External Factor Evaluation (EFE)

Key External Factors	Weight	Rating	Weighted Score
<b>Opportunities</b>			
1. Families crave convenience because of busy lifestyles	0.08	3	0.24
2. Asians love sweets and are open to trying foreign foods	0.05	2	0.10
3. Starbucks lacks a diversified and distinctive pastry line	0.10	3	0.30
4. Dunkin' Donuts does not have hot doughnuts to sell	0.07	4	0.28
5. Many children love sweet treats	0.03	2	0.06
6. Tim Hortons has yet to expand beyond the U.S. and Canada, and its product line does not appear to be competitive	0.04	2	0.08
7. South America, Africa, and Southern Asia are markets to conquer	0.09	1	0.09
<b>Threats</b>			
8. Dunkin' Donuts presently dominates the doughnut market, particularly in northeastern U.S.	0.12	1	0.12
9. People are becoming more health-conscious, which does not bode well for high-sugar, high-fat treats	0.08	2	0.16
10. Starbucks has approximately 25 times the amount of stores worldwide that Krispy Kreme Donut has	0.08	1	0.08

11. Restricted cash flow from banks and massive layoffs have stifled the world economy, decreasing discretionary income	0.06	2	0.12
12. Europeans prefer their local brands of doughnuts	0.05	2	0.10
13. Britons tend not to have cars, which inhibits drive-thru customers, and their eating habits and office etiquette differ from Americans	0.06	2	0.12
14. Shareholders may sell Krispy Kreme Donut stock for lack of returns and dividends compared to other similar firms in the industry	0.09	1	0.09
<b>Total</b>	<b>1.00</b>		<b>1.94</b>

2. Analysis: Please analyze the information presented above and discuss what conclusions you can draw from this information.

### Internal Factor Evaluation (IFE)

Key Internal Factors	Weight	Rating	Weighted Score
<b>Strengths</b>			
1. Affordable, high-quality doughnuts with strong visual appeal and "one-of-a-kind" taste	0.09	4	0.36
2. Neon "Hot Doughnuts Now" sign encourages people outside the store to make an impulse purchase	0.06	3	0.18
3. Market research shows appeal extends to all major demographic groups including age and income	0.08	4	0.32
4. "Hot shop" stores save money while keeping Krispy Kreme Donuts customer experience intact	0.07	3	0.21
5. Vertical integration helps ensure high quality product	0.07	3	0.21
6. Consistent expansion; now in 16 countries	0.08	3	0.24
7. Product sold at thousands of supermarkets, convenience stores, and retail outlets through U.S.	0.06	3	0.18
<b>Weaknesses</b>			
1. Return on equity, assets, and investments all negative in the trailing twelve months; skill of management is questionable	0.10	1	0.10
2. Shareholders have not received dividends recently, and are not expected to in near future; stock price in state of flux	0.07	1	0.07
3. Closing stores when stores should be opening globally at steady rate to keep up with competitors' growth	0.06	2	0.12
4. Management states in recent 10-K that it is struggling with how to make stores profitable	0.07	1	0.07
5. Product line slow to expand with nothing outside "sweet treats" to draw in health-conscious customers	0.04	2	0.08
6. Advertising not aggressive enough to appeal to areas outside southeast of U.S. where most stores are	0.03	2	0.06
7. Revenues down, net losses in each of past three years	0.08	1	0.08
8. Per 10-K, continued disputes with franchisees could hurt future business	0.04	2	0.08
<b>Total</b>	<b>1.00</b>		<b>2.36</b>

3. Analysis: Please analyze the information presented above and discuss what conclusions you can draw from this information.

Strengths-Weaknesses-Opportunities-Threats Matrix (SWOT)

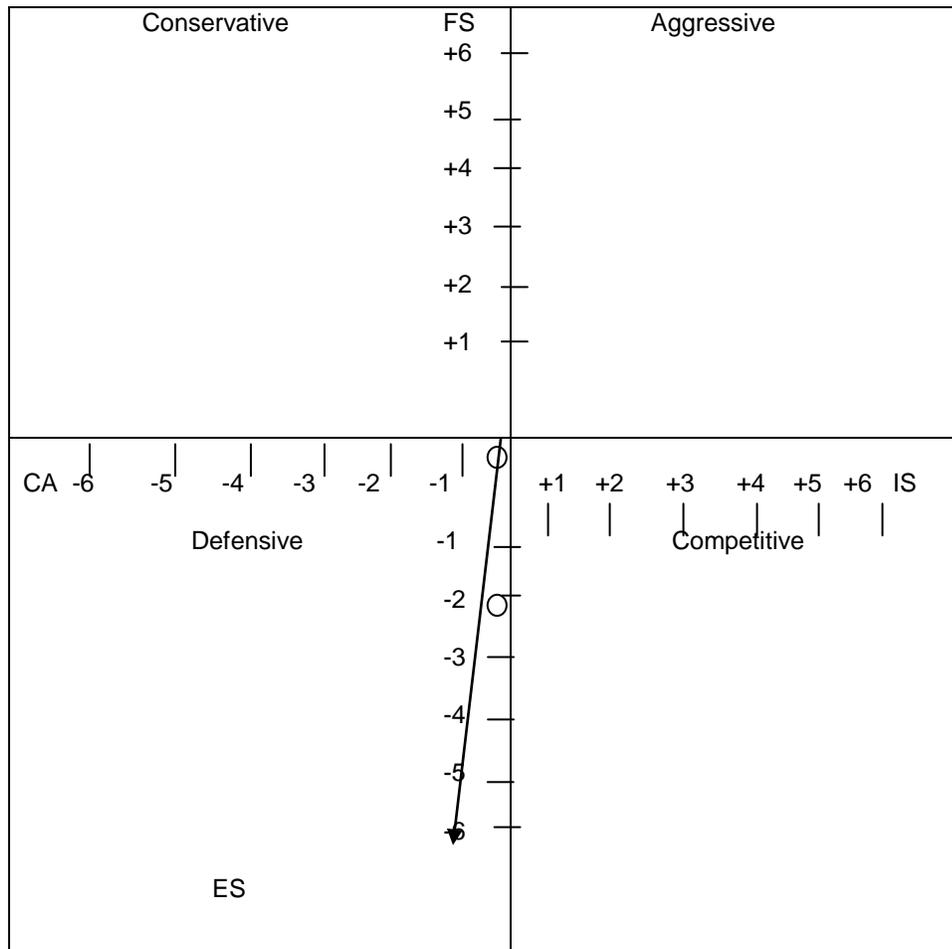
	Strengths	Weaknesses
	<ol style="list-style-type: none"> <li>1. Affordable, high-quality doughnuts with strong visual appeal and "one-of-a-kind" taste</li> <li>2. Neon "Hot Doughnuts Now" sign encourages people outside the store to make an impulse purchase</li> <li>3. Market research shows appeal extends to all major demographic groups including age and income</li> <li>4. "Hot shop" stores save money while keeping KKD customer experience intact</li> <li>5. Vertical integration helps ensure high quality product</li> <li>6. Consistent expansion; now in 16 countries</li> <li>7. Product sold at thousands of supermarkets, convenience stores, and retail outlets through U.S.</li> </ol>	<ol style="list-style-type: none"> <li>1. Return on equity, assets, and investments all negative in the trailing twelve months; skill of mgmt is questionable</li> <li>2. Shareholders have not received dividends recently, and are not expected to in near future; stock price in state of flux</li> <li>3. Closing stores when stores should be opening globally at steady rate to keep up with competitors' growth</li> <li>4. Management states in recent 10-K that it is struggling with how to make stores profitable</li> <li>5. Product line slow to expand with nothing outside "sweet treats" to draw in health-conscious customers</li> <li>6. Advertising not aggressive enough to appeal to areas outside southeast of U.S. where most stores are</li> <li>7. Revenues down, net losses in each of past three years</li> <li>8. Per 10-K, continued disputes with franchisees could hurt future business</li> </ol>
Opportunities	SO Strategies	WO Strategies
<ol style="list-style-type: none"> <li>1. Families crave convenience because of busy lifestyles</li> <li>2. Asians love sweets and are open to trying foreign foods</li> <li>3. Starbucks lacks a diversified and distinctive pastry line</li> <li>4. Dunkin' Donuts does not have hot doughnuts to sell</li> <li>5. Many children love sweet treats</li> </ol>	<ol style="list-style-type: none"> <li>1. TV, radio, and print ads demonstrating 27 varieties of doughnuts against non-descript pastry offerings by Starbucks (S3, O3)</li> <li>2. All store signs in supermarkets and conveniences where product is sold have picture of young child eating a Krispy Kreme doughnut (S7, O5)</li> </ol>	<ol style="list-style-type: none"> <li>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)</li> <li>2. Aggressive Internet ads demonstrating the appeal of Krispy Kreme Donut hot doughnuts (W6, O4)</li> </ol>

<p>6. Tim Hortons has yet to expand beyond the U.S. and Canada, and its product line does not appear to be competitive</p> <p>7. South America, Africa, and Southern Asia are markets to conquer</p>	<p>3. Continued grand openings of stores in highly-populated cities such as Sao Paulo, Brazil &amp; Johannesburg, South Africa (S6, O7)</p>	<p>3. Open small but profitable "hot shops" in South America, Africa, and Southeast Asia in order to expand globally (W3,O7)</p>
Threats	ST Strategies	WT Strategies
<p>1. Dunkin' Donuts presently dominates the doughnut market, particularly in northeastern U.S.</p> <p>2. People are becoming more health-conscious, which does not bode well for high-sugar, high-fat treats</p> <p>3. Starbucks has approximately 25 times the amount of stores worldwide that Krispy Kreme Donut has</p> <p>4. Restricted cash flow from banks and massive layoffs have stifled the world economy, decreasing discretionary income</p> <p>5. Europeans prefer their local brands of doughnuts</p> <p>6. Britons tend not to have cars, which inhibits drive-thru customers, and their eating habits and office etiquette differ from Americans</p> <p>7. Shareholders may sell KKD stock for lack of returns and dividends compared to other similar firms in the industry</p>	<p>1. Compare "hot" doughnut appeal of Krispy Kreme Donut to cold doughnuts of Dunkin' Donuts in TV and Internet ads (S1,T1)</p> <p>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)</p> <p>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)</p>	<p>1. Expand product line with low-calorie foods (W5, T7)</p> <p>2. Recruit top executive talent from other fast-food firms (W1, T7)</p> <p>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)</p>

4. Analysis: Please analyze the information presented above and discuss what conclusions you can draw from this information.

Strategic Position and Action Evaluation Matrix (SPACE)

Financial strength (FS) factors include: Profit (+1); Sales Growth (+2); and Cash Flow (+2)
$1 + 2 + 2 = 5; 5/3 = 1.67.$
Competitive advantage (CA) factors include: Customer loyalty (-2); Product quality (-1); and Market share (-5)
$-2 + -1 + -5 = -8; -8/3 = -2.67.$
**For the above, KKD's financials were compared against competitors Dunkin' Donuts, Starbucks, and Tim Hortons. ( <a href="http://finance.yahoo.com/q/co?s=kkd">http://finance.yahoo.com/q/co?s=kkd</a> )
Environmental Stability (ES) factors include: Barriers to entry into market (-4); Risk involved in business (-3); and Ease of exit from market (-4)
$-4 + -3 + -4 = -11/3 = -3.67$
Industry Strength (IS) factors include: Profit potential (+2); Financial stability (+1); and Technological know-how (+4)
$2 + 1 + 4 = 7/3 = 2.33$



5. Analysis: Please analyze the information presented above and discuss what conclusions you can draw from this information.

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%.

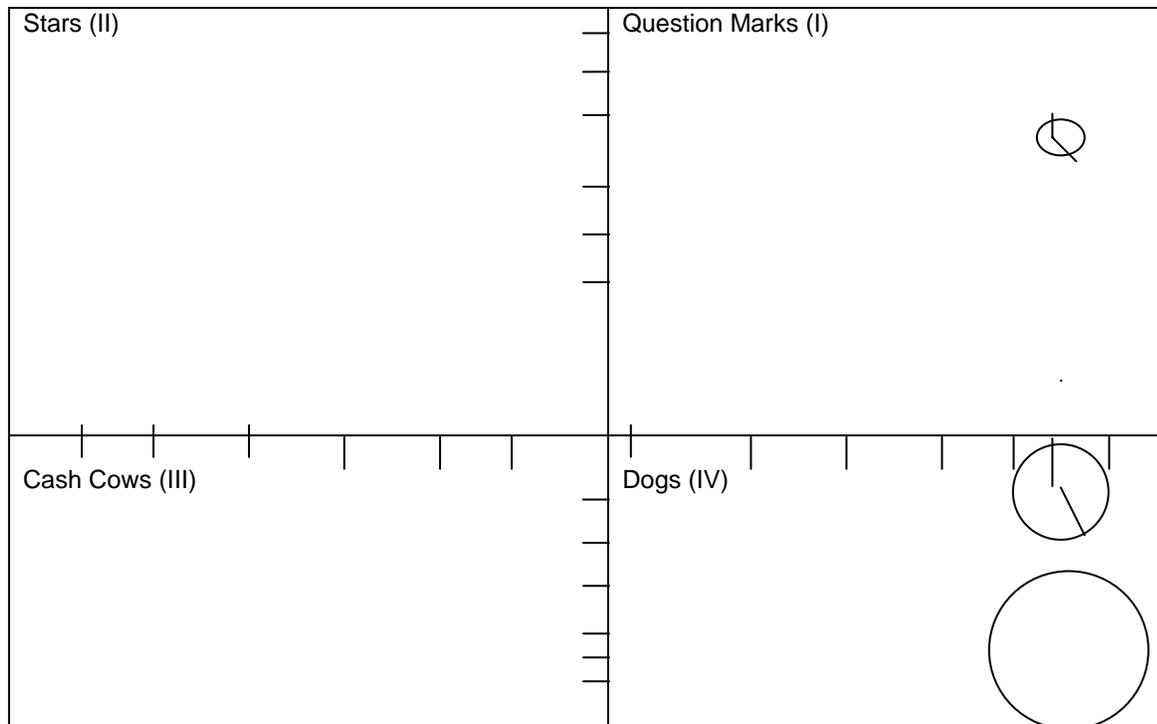
We'll assume that Company Stores has 3% of the market share and a -13% growth rate; Franchise has 3% of the market share and a 10% growth rate; and Krispy Kreme Supply Chain has 3% of the market share and -7% growth rate.

High 1.0

Medium 0.5

Low 0.0

High +20



Low -20

6. Analysis: Please analyze the information presented above and discuss what conclusions you can draw from this information.

Grand Strategy (GS) Matrix

<b>WEAK COMPETITIVE POSITION</b>	<b>RAPID MARKET GROWTH</b>		<b>STRONG COMPETITIVE POSITION</b>
	<i>Quadrant II</i>	<i>Quadrant I</i>	
	<ol style="list-style-type: none"> <li>1. Market Development</li> <li>2. Market Penetration</li> <li>3. Product Development</li> <li>4. Horizontal Integration</li> <li>5. Divestiture</li> <li>6. Liquidation</li> </ol>	<ol style="list-style-type: none"> <li>1. Market Development</li> <li>2. Market Penetration</li> <li>3. Product Development</li> <li>4. Forward Integration</li> <li>5. Backward Integration</li> <li>6. Horizontal Integration</li> <li>7. Related Diversification</li> </ol>	
	<i>Quadrant III</i>	<i>Quadrant IV</i>	
	<b>SLOW MARKET GROWTH</b>		

7. Analysis: Please analyze the information presented above. Discuss which quadrant of the Grand Strategy matrix Krispy Kreme Donuts is in and what possible strategies they should utilize.

Quantitative Strategic Planning Matrix (QSPM)

In the QSPM two strategic alternatives were compared: whether KKD should discontinue its Company Store segment and concentrate solely on building the Franchise segment via the "hot shop" model, or whether it should continue the slow and steady growth of its Company Stores and Franchise business segments through its traditional business model.

<b>STRATEGIC ALTERNATIVES</b>					
		1) Discontinue company stores and concentrate solely on building Franchise via "hot shop" stores		2) Continue slow and steady growth of Company Store and Franchise business segments through traditional business model (without "hot shops")	
<b>Key Factors</b>	<b>Weight</b>	<b>AS</b>	<b>TAS</b>	<b>AS</b>	<b>TAS</b>
<i>Opportunities</i>					
1. Families crave convenience because of busy lifestyles	0.08	---		---	
2. Asians love sweets and are open to trying foreign foods	0.05	---		---	
3. Starbucks lacks a diversified and distinctive pastry line	0.10	---		---	
4. Dunkin' Donuts does not have hot doughnuts to sell	0.07	4	0.28	3	0.21
5. Many children love sweet treats	0.03	---		---	
6. Tim Hortons has yet to expand beyond the U.S. and Canada, and its product line does not appear to be competitive	0.04	4	0.16	3	0.12
7. South America, Africa, and Southern Asia are markets to conquer	0.09	3	0.27	2	0.18
<i>Threats</i>					
1. Dunkin' Donuts presently dominates the doughnut market, particularly in northeastern U.S.	0.12	3	0.36	1	0.12
2. People are becoming more health-conscious, which does not bode well for high-sugar, high-fat treats	0.08	---		---	

3. Starbucks has approximately 25 times the amount of stores worldwide that KKD has	0.08	2	0.16	1	0.08
4. Restricted cash flow from banks and massive layoffs have stifled the world economy, decreasing discretionary income	0.06	---		---	
5. Europeans prefer their local brands of doughnuts	0.05	---		---	
6. Britons tend not to have cars, which inhibits drive-thru customers, and their eating habits and office etiquette differ from Americans	0.06	---		---	
7. Shareholders may sell KKD stock for lack of returns and dividends compared to other similar firms in the industry	0.09	2	0.18	1	0.09
	1.00				
<i>Strengths</i>					
1. Affordable, high-quality doughnuts with strong visual appeal and "one-of-a-kind" taste	0.09	---		---	
2. Neon "Hot Doughnuts Now" sign encourages people outside the store to make an impulse purchase	0.06	4	0.24	3	0.18
3. Market research shows appeal extends to all major demographic groups including age and income	0.08	---		---	
4. "Hot shop" stores save money while keeping KKD customer experience intact	0.07	4	0.28	1	0.07
5. Vertical integration helps ensure high quality product	0.07	---		---	
6. Consistent expansion; now in 16 countries	0.08	---		---	
7. Product sold at thousands of supermarkets, convenience stores, and retail outlets through U.S.	0.06	---		---	
<i>Weaknesses</i>					
1. Return on equity, assets, and investments all negative in the trailing twelve months; skill of mgmt is questionable	0.10	3	0.30	1	0.10
2. Shareholders have not received dividends recently, and are not expected to in near future;	0.07	---		---	

stock price in state of flux					
3. Closing stores when stores should be opening globally at steady rate to keep up with competitors' growth	0.06	3	0.18	1	0.06
4. Management states in recent 10-K that it is struggling with how to make stores profitable	0.07	4	0.28	1	0.07
5. Product line slow to expand with nothing outside "sweet treats" to draw in health-conscious customers	0.04	---		---	
6. Advertising not aggressive enough to appeal to areas outside southeast of U.S. where most stores are	0.03	---		---	
7. Revenues down, net losses in each of past three years	0.08	3	0.24	1	0.08
8. Per 10-K, continued disputes with franchisees could hurt future business	0.04	1	0.04	2	0.08
<b>Total</b>	1.00		<b>2.97</b>		1.44

8. Analysis: Please analyze the information presented above and discuss what conclusions you can draw from this information.

Income Statement and Balance Sheet

**KRISPY KREME DOUGHNUTS, INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS**

<b>Year Ended Feb. 1, 2009 (In thousands, except per share amounts)</b>
Revenues \$ 383,984
Operating expenses:
Direct operating expenses (exclusive of depreciation and amortization shown below) 345,007
General and administrative expenses 23,458
Depreciation and amortization expense 8,709
Impairment charges and lease termination costs 548
Settlement of litigation — (14,930 )
Other operating (income) and expense, net 1,501
Operating income (loss) 4,761
Interest income 331
Interest expense (10,679 )
Loss on extinguishment of debt —
Equity in losses of equity method franchisees (786 )
Other non-operating income and (expense), net 2,815
Loss before income taxes (3,558 )
Provision for income taxes 503
Net loss \$ (4,061 )

**KRISPY KREME DOUGHNUTS, INC.  
CONSOLIDATED BALANCE SHEET**

<b>Feb. 1, 2009 (In thousands)</b>
<b>ASSETS</b>
CURRENT ASSETS:
Cash and cash equivalents \$ 35,538
Receivables 19,229
Accounts and notes receivable — equity method franchisees 1,019
Inventories 15,587
Deferred income taxes 106
Other current assets 4,327
Total current assets 75,806
Property and equipment 85,075
Investments in equity method franchisees 1,187
Goodwill and other intangible assets 23,856
Other assets 9,002
Total assets \$ 194,926
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>

<b>CURRENT LIABILITIES:</b>
Current maturities of long-term debt \$ 1,413
Accounts payable 8,981
Accrued liabilities 29,222
Total current liabilities 39,616
Long-term debt, less current maturities 73,454
Deferred income taxes 106
Other long-term obligations 23,995
Commitments and contingencies
<b>SHAREHOLDERS' EQUITY:</b>
Preferred stock, no par value; 10,000 shares authorized; none issued and outstanding---common stock, no par value, 300,000 shares authorized; 67,512 and 65,370 shares issued and outstanding 361,801
Accumulated other comprehensive income (loss) (913 )
Accumulated deficit (303,133 )
Total shareholders' equity 57,755
Total liabilities and shareholders' equity \$ 194,926

9. Analysis: Please analyze the information presented above and discuss what conclusions you can draw from this information.

Summary of Conclusions

10. Analysis: Please provide a summary of the analyses that have been developed based on the information provided.

Recommendations

11. Analysis: Please analyze the information presented above and discuss what conclusions you can draw from this information.