

# Krispy Kreme Doughnuts Inc. – 2015

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## A. Case Abstract

Headquartered in Winston-Salem, North Carolina, Krispy Kreme Doughnuts (KKD) serves doughnuts and coffee as well as other snack items. The company has locations in 23 countries. Many Krispy Kreme shops are factory shops where customers can watch doughnuts being made and purchase fresh hot doughnuts as well. The factory stores are responsible for servicing local grocery stores and convenience stores. The KK Supply Chain provides raw materials for both franchise and company-owned stores in the doughnut-making process. Krispy Kreme storeowners must purchase all materials from KK Supply Chain. Krispy Kreme reported total revenues in fiscal year end February 2015 of \$490 million with about 90 percent of revenues derived from the United States.

## B. Vision Statement (proposed)

Krispy Kreme strives to be the best doughnut and coffee brand in the world.

## C. Mission Statement (actual)

“Consumers (1) are our lifeblood, the center of the doughnut. (2)  
There is no substitute for quality in our service to consumers.  
Impeccable presentation is critical (7) 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. (8)  
We must never settle for “second best;” we deliver on our commitments.  
We must coach our team (9) to ever-better results. (5)”

(Proposed)

Krispy Kreme Doughnuts provides people of all ages (1) the highest quality doughnuts and coffee (2) in the industry. We actively serve customers across the United States and globally in more than twenty countries (3). We are proud of our Doughnut Theaters (7), where customers watch fresh hot doughnuts being made and order them while they are still hot. We work diligently with many nonprofits including schools and churches to help with fundraising activities (8). We continually upgrade our production technology (4). We provide our employees with meaningful employment, fair wages, and an ethical workplace (6, 9), while providing a fair return on investment for our shareholders. (98 words)

1. Customers
2. Products or services
3. Markets
4. Technology
5. Concern for survival, growth, and profitability
6. Philosophy

7. Self-concept
8. Concern for public image
9. Concern for employees

## **D. External Audit**

### **Opportunities**

1. The US doughnut market is a \$13 billion industry with about 25% of sales coming from bulk doughnuts in the 1 dozen-size box and up.
2. The outlook for doughnut shops remains positive, especially outside of North America, where the market is not saturated.
3. A growing middle class in developing countries has created many new customers.
4. In early 2015, Jollibee Foods Corp., based in the Philippines, was considered by many analysts to be a serious contender to purchase KKD, as Jollibee management looks to add an American-based food company to its portfolio.
5. Many people around the world prefer eating healthier snacks, with reduced calories.
6. Coffee prices as of 2015 were 75% lower than their all-time highs in 2011.
7. Growing familiarity of US products in Latin America from advertising and immigration.
8. Schools, churches, and other not-for-profits are often looking for fundraising options.
9. Breakfast sandwiches are the new burgers: Breakfast sales at fast-food chains increased by 4.8% annually from 2007-2012.
10. In 2014, international sales for Dunkin' Donuts decreased 2% and Baskin Robbins decreased 1.2%.

### **Threats**

1. Major rival Dunkin' Brands reported \$260 million more in revenue than KKD.
2. Both in the US and globally, people are becoming more health conscious in their diet and food choices, in particular, low carb diets are increasingly popular.
3. Competitors of KKD, including Dunkin' Brands and Starbucks, have already diversified their menu options to include healthier choices.
4. Like many commodities, the price of coffee is subject to wild price fluctuations. Recent droughts and fungal infections may reduce the coffee supply by 40% by 2020.
5. Some cities and other governments around the world are imposing laws that restrict portion sizes of soft drinks and other sugar-laden snack sizes.
6. Also, a global acceptance to "fair trade" providing farmers a fair wage and educational programs for their farming efforts has also contributed to higher prices.
7. There are over 850 Tim Hortons locations throughout the US that generated over \$600 million in revenue in 2014.
8. Starbucks is the world's largest specialty coffee retailer with over 18,000 stores in 60 different countries.
9. Barriers to entry are relatively low for the restaurant industry, but rivalry (competitiveness) among firms is exceptionally high.
10. In the restaurant industry, the bargaining power of consumers is quite powerful, availability of restaurant options in most places is abundant, and consequently there is intense price competitiveness among rival firms.

### Competitive Profile Matrix

		<b>Krispy Kreme</b>		<b>Starbucks</b>		<b>Dunkin' Brands</b>	
<b>Critical Success Factors</b>	<b>Weight</b>	<b>Rating</b>	<b>Score</b>	<b>Rating</b>	<b>Score</b>	<b>Rating</b>	<b>Score</b>
Advertising	0.06	1	0.06	4	0.24	2	0.12
Price Competitiveness	0.11	3	0.33	1	0.11	2	0.22
Financial Position	0.08	3	0.24	4	0.32	2	0.16
Customer Loyalty	0.10	2	0.20	3	0.30	4	0.40
Global Expansion	0.09	1	0.09	4	0.36	3	0.27
Market Share	0.12	1	0.12	4	0.48	3	0.36
Product Line	0.09	2	0.18	4	0.36	3	0.27
Store Locations	0.05	1	0.05	4	0.20	3	0.15
Customer Service	0.07	3	0.21	4	0.28	2	0.14
Product Quality	0.08	3	0.24	4	0.32	2	0.16
Debt Ratio	0.11	3	0.33	4	0.44	1	0.11
Employee Dedication	0.04	3	0.12	4	0.16	2	0.08
<b>Totals</b>	<b>1.00</b>	<b>2.17</b>		<b>3.57</b>		<b>2.44</b>	

KKD trails both Starbucks and Dunkin' on the total CPM score. KKD competes well with Dunkin' in its home market of the Southeast US but not nearly as well in the Northeast and other markets. Much of KKD's lower CPM score can be attributed to lower market share in both the US and international markets.

### EFE Matrix

<b>Opportunities</b>		<b>Weight</b>	<b>Rating</b>	<b>Weighted Score</b>
1.	The US doughnut market is a \$13 billion industry with about 25% of sales coming from bulk doughnuts in the 1 dozen-size box and up.	0.10	4	0.40
2.	The outlook for doughnut shops remains positive, especially outside of North America, where the market is not saturated.	0.05	2	0.10
3.	A growing middle class in developing countries has created many new customers.	0.05	2	0.10
4.	In early 2015, Jollibee Foods Corp., based in the Philippines, was considered by many analysts to be a serious contender to purchase KKD, as Jollibee management looks to add an American-based food company to its portfolio.	0.05	1	0.05
5.	Many people around the world prefer eating healthier snacks, with reduced calories.	0.05	1	0.05
6.	Coffee prices as of 2015 were 75% lower than their all-time highs in 2011.	0.05	2	0.10
7.	Growing familiarity of US product in Latin America from advertising and immigration.	0.04	1	0.04
8.	Schools, churches, and other not for profits are often looking for fund raising options.	0.03	4	0.12
9.	Breakfast sandwiches are the new burgers: Breakfast sales at fast-food chains increased by 4.8% annually from 2007-2012.	0.04	1	0.04
10.	In 2014, international sales for Dunkin' Donuts decreased 2% and Baskin Robbins decreased 1.2%.	0.04	2	0.08

Threats		Weight	Rating	Weighted Score
1.	Major rival Dunkin' Brands reported \$260 million more in revenue than KKD.	0.10	2	0.20
2.	Both in the US and globally, people are becoming more health conscious in their diet and food choices in particular, low carb diets are increasingly popular.	0.05	1	0.05
3.	Competitors of KKD, including Dunkin' Brands and Starbucks, have already diversified their menu options to include healthier choices.	0.06	1	0.06
4.	Like many commodities, the price of coffee is subject to wild price fluctuations. Recent droughts and fungal infections may reduce the coffee supply by 40% by 2020.	0.04	3	0.12
5.	Some cities and other governments around the world are imposing laws that restrict portion sizes of soft drinks and other sugary-laden snack sizes.	0.01	1	0.01
6.	Also, a global acceptance to "fair trade" providing farmers a fair wage and educational programs for their farming efforts has also contributed to higher prices.	0.02	2	0.04
7.	There are over 850 Tim Hortons locations throughout the US that generated over \$600 million in revenue in 2014.	0.04	3	0.12
8.	Starbucks is the world's largest specialty coffee retailer with over 18,000 stores in 60 different countries.	0.08	2	0.16
9.	Barriers to entry are relatively low for the restaurant industry, but rivalry (competitiveness) among firms is exceptionally high.	0.05	2	0.10
10.	In the restaurant industry, the bargaining power of consumers is quite powerful, availability of restaurant options in most places is abundant, and consequently there is intense price competitiveness among rival firms.	0.05	3	0.15
<b>TOTALS</b>		<b>1.00</b>		<b>2.09</b>

With a total EFE score of 2.09, Krispy Kreme is performing below average on addressing key external issues facing the firm. The most opportune area for Krispy Kreme to address is consumer desire for healthy options (KKD offers none) or breakfast sandwich offerings. Krispy Kreme's score was also hurt significantly by larger rivals Starbucks and Dunkin' Donuts.

## E. Internal Audit

### Strengths

1. Many KKD shops are factory shops where customers can watch doughnuts being made and purchase fresh hot doughnuts.
2. KKD has long prided itself on hot fresh doughnuts and a one of a kind taste.
3. KKD are sold in KKD stores, grocery stores, convenience stores, gas stations, Wal-Mart, and Target stores in the US.
4. The company is transitioning toward smaller factory shops that will focus on retail rather than wholesale customers. In fiscal 2015, 51% of revenue is generated from wholesale.
5. KKD has long helped the communities with fundraisers, even offering special packaging at times.
6. As of February 2015, there were 278 KKD stores operating domestically in 38 states and in the District of Columbia, and another 523 shops in 23 other countries.
7. KKD has plans to grow international stores to 900 by January 2017.
8. KKD experienced 6.5% increase in total revenues in fiscal 2015.
9. Current ratio for KKD is 2.5.
10. KKD is increasing its \$80 million stock buyback to \$105 million in 2015.

## Weaknesses

1. KKD does not have a published vision statement.
2. KKD reports revenues by geographic region, but is not structured geographically.
3. There is only one supplier of KKD's signature glaze.
4. Sales in Mexico, Latin America, and South America declined slightly in 2015.
5. About 90% of 2015 revenues were derived from the US.
6. Net income fell 12% in fiscal 2015.
7. KKD offers no breakfast sandwiches.
8. KKD offers few healthy options such as whole wheat muffins.
9. About 55% of all domestic transactions are for doughnut orders of 1 dozen or more and international sales of a dozen or more are also a significant portion of total sales.
10. About 89% of all KKD's retail sales are derived from doughnuts, with the industry average closer to 50 percent of sales being derived from doughnuts.

## Financial Ratio Analysis

	<b>Krispy Kreme</b>	<b>Dunkin' Brands</b>
Current Ratio	2.58	1.25
Quick Ratio	2.22	1.25
Long Term Debt / Equity	0.03	4.91
Inventory Turnover	27.22	NA
Total Assets Turnover	1.39	0.24
Accounts Receivable Turnover	9.42	7.13
Average Collection Period	38.73	51.17
Gross Profit Margin	0.18	0.82
Net Profit Margin	0.06	0.23
Return on Total Assets (ROA)	0.08	0.06
Return on Equity (ROE)	0.11	0.48

## Net Worth Analysis (in millions)

<b>Krispy Kreme Doughnuts</b>	
Stockholders' Equity - (Goodwill + Intangibles)	\$268
Net Income x 5	\$150
(Share Price/EPS) x Net Income	\$1,128
Number of Shares Outstanding x Share Price	\$1,107
<b>Method Average</b>	<b>\$663</b>

<b>Dunkin' Brands</b>	
Stockholders' Equity - (Goodwill + Intangibles)	(\$1,948)
Net Income x 5	\$880
(Share Price/EPS) x Net Income	\$5,320
Number of Shares Outstanding x Share Price	\$4,911
<b>Method Average</b>	<b>\$2,291</b>

## IFE Matrix

	<b>Strengths</b>	<b>Weight</b>	<b>Rating</b>	<b>Weighted Score</b>
1.	Many KKD shops are factory shops where customers can watch doughnuts being made and purchase fresh hot doughnuts.	0.07	4	0.28
2.	KKD has long prided itself on hot fresh doughnuts and a one of a kind taste.	0.07	4	0.28
3.	KKD are sold in KKD stores, grocery stores, convenience stores, gas stations, Wal-Mart, and Target stores in the US.	0.06	4	0.24
4.	The company is transitioning toward smaller factory shops that will focus on retail rather than wholesale customers. In fiscal 2015, 51% of revenue is generated from wholesale.	0.07	4	0.28
5.	KKD has long helped the communities with fund-raisers, even offering special packaging at times.	0.03	4	0.12
6.	As of February 2015, there were 278 KKD stores operating domestically in 38 states and in the District of Columbia, and another 523 shops in 23 other countries.	0.10	3	0.30
7.	KKD has plans to grow international stores to 900 by January 2017.	0.06	3	0.18
8.	KKD experienced 6.5% increase in total revenues in fiscal 2015.	0.05	4	0.20
9.	Current ratio for KKD is 2.5.	0.04	4	0.16
10.	KKD is increasing its \$80 million stock buyback to \$105 million in 2015.	0.03	4	0.12

	<b>Weaknesses</b>	<b>Weight</b>	<b>Rating</b>	<b>Weighted Score</b>
1.	KKD does not appear to have a published vision statement.	0.03	1	0.03
2.	KKD reports revenues by geographic region, but is not structured geographically.	0.04	1	0.04
3.	There is only one supplier of KKD's signature glaze.	0.03	1	0.03
4.	Sales in Mexico, Latin America, and South America declined slightly in 2015.	0.05	1	0.05
5.	About 90% of 2015 revenues were derived from the US.	0.05	1	0.05
6.	Net income fell 12% in fiscal 2015.	0.08	1	0.08
7.	KKD offers no breakfast sandwiches.	0.04	2	0.08
8.	KKD offers few healthy options such as whole wheat muffins.	0.03	2	0.06
9.	About 55% of all domestic transactions are for doughnut orders of 1 dozen or more and international sales of a dozen or more are also a significant portion of total sales.	0.02	2	0.04
10.	About 89% of all KKD's retail sales are derived from doughnuts, with the industry average closer to 50 percent of sales being derived from doughnuts.	0.05	2	0.10
<b>TOTALS</b>		<b>1.00</b>		<b>2.72</b>

Krispy Kreme's score of 2.72 on the IFE Matrix is above average indicating Krispy Kreme is doing fairly well addressing its key internal issues. Key areas for improvement include offering at least a few healthy options on the menu and attracting an increased number of morning customers that purchase coffee and one or two doughnuts.

## **F. SWOT**

### **SO Strategies**

1. Open 30 new company owned stores in Mexico by 2018 (S6, S7, O3, O7, O10).
2. Open 30 new company owned stores across Brazil, Argentina and Colombia by 2018 (S6, S7, O2, O3, O7, O10).
3. Open 300 new franchisee stores across China by 2018 (S7, S8, O2, O3, O10).

### **WO Strategies**

1. Restructure the firm divisionally with a President of US and a President of International operations (W2, O2, O7, O10).
2. Increase advertising by \$5 million in Mexico and South America (W4, W5, O2, O3, O7).
3. Spend \$15 million to create a line of low sugar whole wheat muffins (W8, W10, O5).
4. Spend \$15 million to create a line of breakfast biscuits (W7, W10, O9).
5. Spend \$15 million advertising in the US promoting customers enjoying individual portion coffee and doughnuts in the morning (W6, W10, O1).

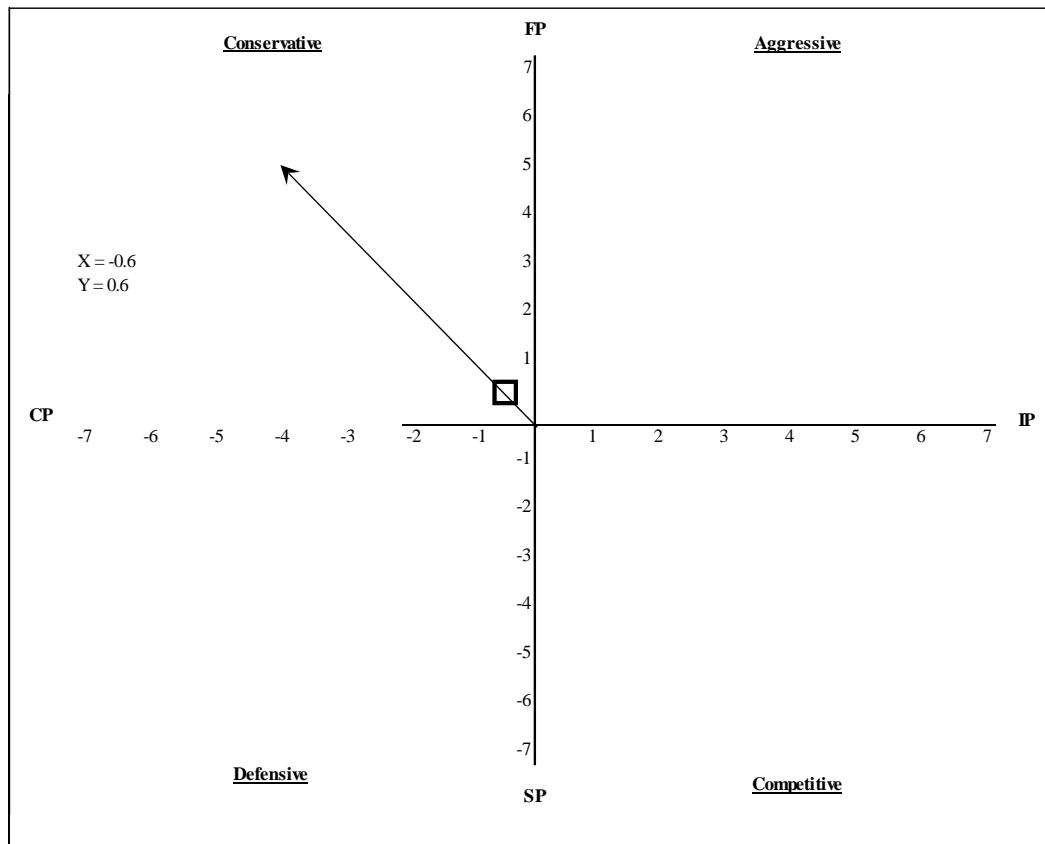
### **ST Strategies**

1. Open 300 new franchisee stores across China by 2018 (S7, S8, T1).
2. Spend \$20 million promoting fresh doughnuts and attacking the competition claiming their doughnuts sit on the shelf for hours before purchase (S1, S2, T1, T7).

### **WT Strategies**

1. Spend \$15 million to create a line of low sugar whole wheat muffins (W6, W8, W10, T2, T3, T5).
2. Spend \$10 million to market Krispy Kreme coffee to morning commuters (W6, W9, T8).

## G. SPACE Matrix



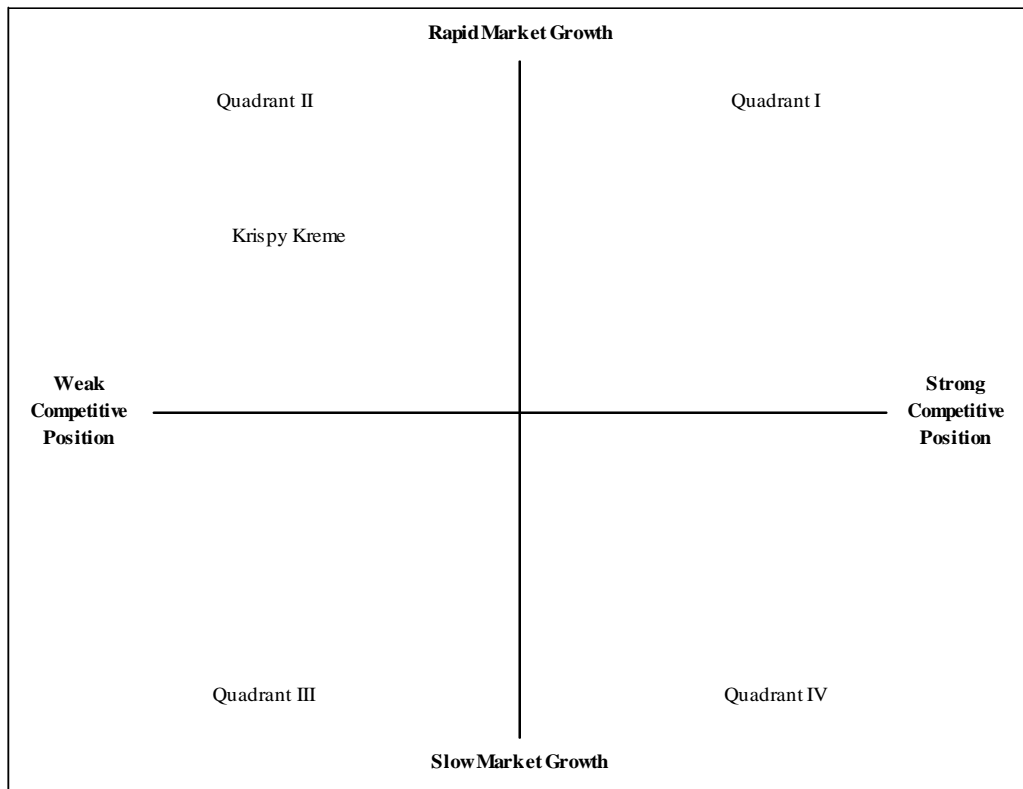
<u>Financial Position (FP)</u>		<u>Stability Position (SP)</u>	
Debt Ratio	6	Competitive Pressure	-6
Return on Total Assets (ROA)	2	Industry Margins	-5
Return on Equity (ROE)	2	Product Demand	-1
EPS	4	Product Line Diversity	-4
Current Ratio	7	Replacement Products	-2
<b>Financial Position (FP) Average</b>	<b>4.2</b>	<b>Stability Position (SP) Average</b>	<b>-3.6</b>

<u>Competitive Position (CP)</u>		<u>Industry Position (IP)</u>	
Doughnut Market Share	-3	Growth Potential	6
Coffee Market Share	-7	Coffee Supply	4
Price Competitiveness	-2	Ease of Entry into Market	2
Product Variety	-6	Profit Potential	4
Customer Loyalty	-3	Nutritional Offerings	2
<b>Competitive Position (CP) Average</b>	<b>-4.2</b>	<b>Industry Position (IP) Average</b>	<b>3.6</b>

Krispy Kreme is positioned in the Conservative Quadrant of the SPACE Matrix. Viable strategies would include increasing advertising and obtaining new franchise agreements. The firm should also consider increasing marketing efforts in order to attract an increased number of customers purchasing coffee and one or two doughnuts per visit.

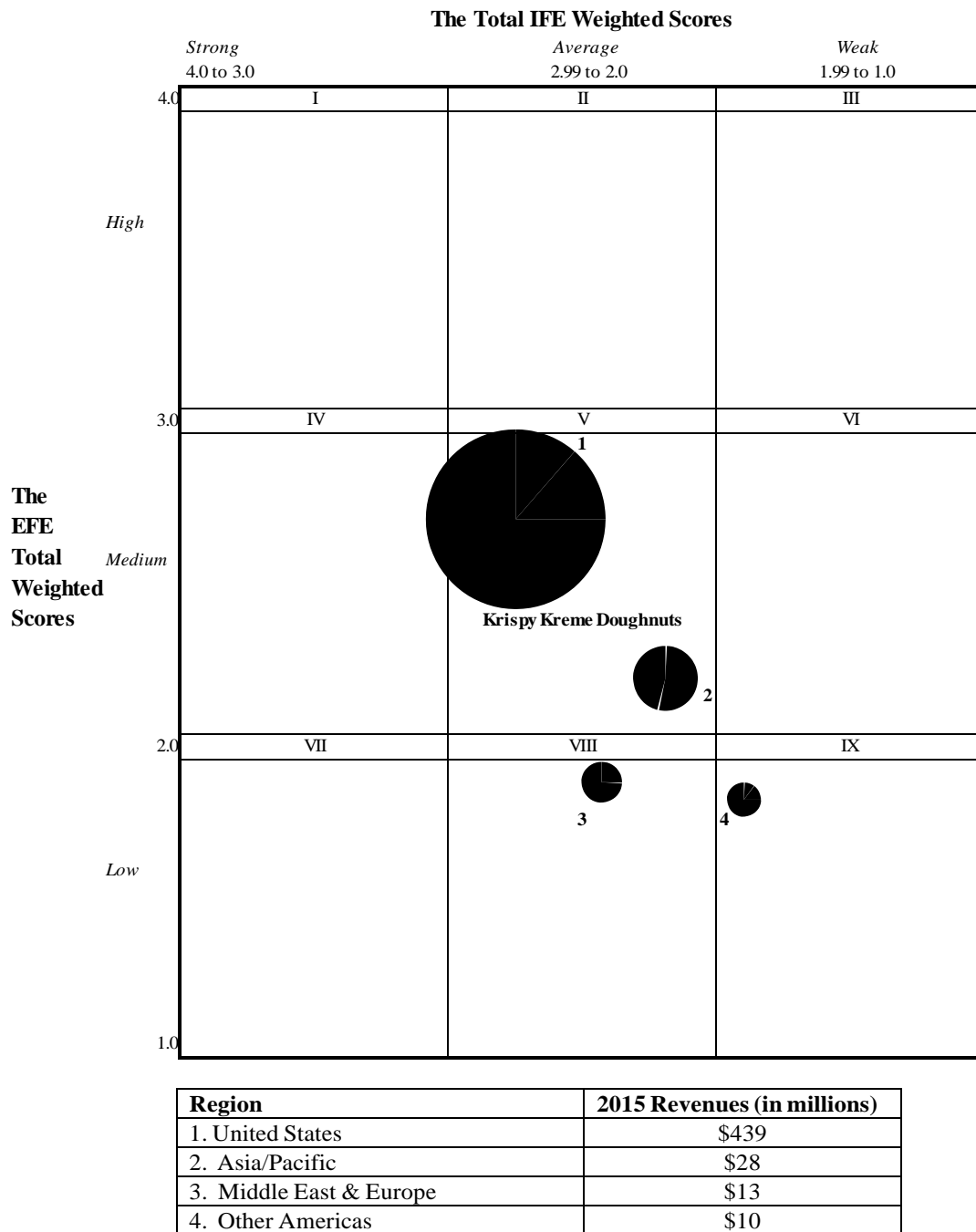


## H. Grand Strategy Matrix



Krispy Kreme does not have the national brand recognition as Dunkin' Brands but it does compete fairly well with Dunkin' in the markets they share. When compared to Starbucks, Krispy Kreme is an afterthought of any serious coffee drinker.

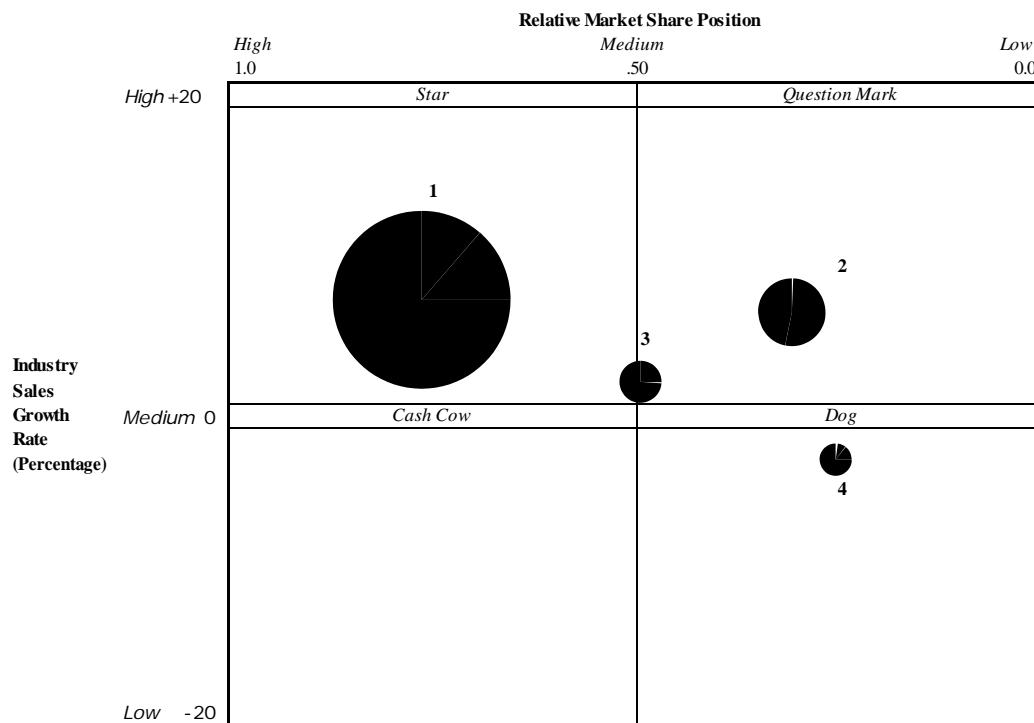
## I. The Internal-External (IE) Matrix



KKD is in the Hold and Maintain area of the IE Matrix. However, this position does not indicate the firm should keep doing business the exact same way it currently is with little to no change. Currently, Krispy Kreme is shifting its resources to building smaller and more factory stores where the firm can sell increasingly directly to the public. This strategy is likely a viable one, as it will also likely aid in Krispy Kreme selling an

increased number of doughnuts in portions less than a dozen. Currently, half of all transactions are for a dozen or more of doughnuts, resulting in the firm possibly missing out on many individual sales of coffee and one to two doughnut purchases. The other Americas segment reported a reduction in sales in 2015 and sales in the Middle East are struggling. Krispy Kreme was even forced to divest all three properties in Lebanon in fiscal 2015 as it was unable to compete with Dunkin' in that market. This is a concern for Krispy Kreme across the Middle East and Europe.

## J. BCG



The BCG presented in this analysis uses the same divisions found in the IE Matrix. Also, the top competitor was assumed to be Dunkin' Brands as Starbucks was not considered to be a competitor. A BCG considering Starbucks as a competitor would result in virtually all the circle locations being flush right since Starbucks dwarfs Krispy Kreme and Dunkin' for that matter on Relative Market Share. Divisions 2, 3 and 4 are estimated as it is difficult to determine the market leader in the various geographic regions but with Krispy Kreme's sales relatively small, it is safe to assume the firm is not the market leader in any of the 3 broad international regions. Other Americas is considered a Dog because of a negative sales growth in fiscal 2015.

## K. QSPM

		<i>Open 60 new stores across Latin America</i>		<i>Develop a line of healthy menu items</i>		
	<b>Opportunities</b>	<b><u>Weight</u></b>	<b><u>AS</u></b>	<b><u>TAS</u></b>	<b><u>AS</u></b>	<b><u>TAS</u></b>
1.	The US doughnut market is a \$13 billion industry with about 25% of sales coming from bulk doughnuts in the 1 dozen-size box and up.	0.10	0	0.00	0	0.00
2.	The outlook for doughnut shops remains positive, especially outside of North America, where the market is not saturated.	0.05	4	0.20	1	0.05
3.	A growing middle class in developing countries has created many new customers.	0.05	4	0.20	1	0.05
4.	In early 2015, Jollibee Foods Corp., based in the Philippines, was considered by many analysts to be a serious contender to purchase KKD, as Jollibee management looks to add an American-based food company to its portfolio.	0.05	0	0.00	0	0.00
5.	Many people around the world prefer eating healthier snacks, with reduced calories.	0.05	2	0.10	4	0.20
6.	Coffee prices as of 2015 were 75% lower than their all-time highs in 2011.	0.05	0	0.00	0	0.00
7.	Growing familiarity of US product in Latin America from advertising and immigration.	0.04	4	0.16	1	0.04
8.	Schools, churches, and other not for profits are often looking for fund raising options.	0.03	0	0.00	0	0.00
9.	Breakfast sandwiches are the new burgers: Breakfast sales at fast-food chains increased by 4.8% annually from 2007-2012.	0.04	0	0.00	0	0.00
10.	In 2014, international sales for Dunkin' Donuts decreased 2% and Baskin Robbins decreased 1.2%.	0.04	2	0.08	1	0.04

<b>Threats</b>		<b><u>Weight</u></b>	<b><u>AS</u></b>	<b><u>TAS</u></b>	<b><u>AS</u></b>	<b><u>TAS</u></b>
1.	Major rival Dunkin' Brands reported \$260 million more in revenue than KKD.	0.10	3	0.30	2	0.20
2.	Both in the US and globally, people are becoming more health conscious in their diet and food choices in particular, low carb diets are increasingly popular.	0.05	2	0.10	4	0.20
3.	Competitors of KKD, including Dunkin' Brands and Starbucks, have already diversified their menu options to include healthier choices.	0.06	1	0.06	4	0.24
4.	Like many commodities, the price of coffee is subject to wild price fluctuations. Recent droughts and fungal infections may reduce the coffee supply by 40% by 2020.	0.04	0	0.00	0	0.00
5.	Some cities and other governments around the world are imposing laws that restrict portion sizes of soft drinks and other sugary-laden snack sizes.	0.01	1	0.01	3	0.03
6.	Also, a global acceptance to "fair trade" providing farmers a fair wage and educational programs for their farming efforts has also contributed to higher prices.	0.02	0	0.00	0	0.00
7.	There are over 850 Tim Hortons locations throughout the US that generated over \$600 million in revenue in 2014.	0.04	0	0.00	0	0.00
8.	Starbucks is the world's largest specialty coffee retailer with over 18,000 stores in 60 different countries.	0.08	2	0.16	1	0.08
9.	Barriers to entry are relatively low for the restaurant industry, but rivalry (competitiveness) among firms is exceptionally high.	0.05	0	0.00	0	0.00
10.	In the restaurant industry, the bargaining power of consumers is quite powerful, availability of restaurant options in most places is abundant, and consequently there is intense price competitiveness among rival firms.	0.05	0	0.00	0	0.00

		<i>Open 60 new stores across Latin America</i>		<i>Develop a line of healthy menu items</i>		
<b>Strengths</b>		<b><u>Weight</u></b>	<b><u>AS</u></b>	<b><u>TAS</u></b>	<b><u>AS</u></b>	<b><u>TAS</u></b>
1.	Many KKD shops are factory shops where customers can watch doughnuts being made and purchase fresh hot doughnuts.	0.07	0	0.00	0	0.00
2.	KKD has long prided itself on hot fresh doughnuts and a one of a kind taste.	0.07	0	0.00	0	0.00
3.	KKD are sold in KKD stores, grocery stores, convenience stores, gas stations, Wal-Mart, and Target stores in the US.	0.06	0	0.00	0	0.00
4.	The company is transitioning toward smaller factory shops that will focus on retail rather than wholesale customers. In fiscal 2015, 51% of revenue is generated from wholesale.	0.07	2	0.14	1	0.07
5.	KKD has long helped the communities with fund-raisers, even offering special packaging at times.	0.03	0	0.00	0	0.00
6.	As of February 2015, there were 278 KKD stores operating domestically in 38 states and in the District of Columbia, and another 523 shops in 23 other countries.	0.10	4	0.40	1	0.10
7.	KKD has plans to grow international stores to 900 by January 2017.	0.06	4	0.24	1	0.06
8.	KKD experienced 6.5% increase in total revenues in fiscal 2015.	0.05	4	0.20	2	0.10
9.	Current ratio for KKD is 2.5.	0.04	4	0.16	2	0.08
10.	KKD is increasing its \$80 million stock buyback to \$105 million in 2015.	0.03	0	0.00	0	0.00

Weaknesses		Weight	AS	TAS	AS	TAS
1.	KKD does not appear to have a published vision statement.	0.03	0	0.00	0	0.00
2.	KKD reports revenues by geographic region, but is not structured geographically.	0.04	0	0.00	0	0.00
3.	There is only one supplier of KKD's signature glaze.	0.03	0	0.00	0	0.00
4.	Sales in Mexico, Latin America, and South America declined slightly in 2015.	0.05	4	0.20	2	0.10
5.	About 90% of 2015 revenues were derived from the US.	0.05	4	0.20	1	0.05
6.	Net income fell 12% in fiscal 2015.	0.08	3	0.24	2	0.16
7.	KKD offers no breakfast sandwiches.	0.04	0	0.00	0	0.00
8.	KKD offers few healthy options such as whole wheat muffins.	0.03	1	0.03	4	0.12
9.	About 55% of all domestic transactions are for doughnut orders of 1 dozen or more and international sales of a dozen or more are also a significant portion of total sales.	0.02	2	0.04	3	0.06
10.	About 89% of all KKD's retail sales are derived from doughnuts, with the industry average closer to 50 percent of sales being derived from doughnuts.	0.05	1	0.05	3	0.15
<b>TOTALS</b>				<b>3.27</b>		<b>2.18</b>

Krispy Kreme has several options for it moving forward. Two key areas examined in the QPSM entail expanding the Krispy Kreme brand further into Latin America or diverting more resources to creating a healthy line of snacks. Expanding further into Latin America was the clear winner receiving a score of 3.27 compared to 2.18 for developing a line of healthy snacks. Research shows, when consumers want to splurge on their eating and treat themselves, they often do not consider the calories or fat content in the food they are purchasing. Also, expanding the current Krispy Kreme products further into the Latin America region is more in line with what Krispy Kreme knows best, that is producing excellent doughnuts.

## L. Recommendations

1. Open 30 new company owned stores in Mexico by 2018 for \$25 million.
2. Open 30 new company owned stores across Brazil, Argentina and Colombia by 2018 for \$25 million.
3. Open 300 new franchisee stores across China by 2018 paid mostly by the franchisee.
4. Restructure the firm divisionally with a President of US and a President of International operations for \$15 million in reorganizational and new salary expenses.
5. Increase advertising by \$5 million in Mexico and South America.
6. Spend \$15 million to create a line of low sugar whole wheat muffins.
7. Spend \$15 million advertising in the US promoting customers enjoying individual portion coffee and doughnuts in the morning.

## M. EPS/EBIT Analysis (in millions except for EPS and Share Price)

Amount Needed: \$100  
 Stock Price: \$17.30  
 Shares Outstanding: 64  
 Interest Rate: 5%  
 Tax Rate: 37%

	<u>Common Stock Financing</u>			<u>Debt Financing</u>		
	<u>Recession</u>	<u>Normal</u>	<u>Boom</u>	<u>Recession</u>	<u>Normal</u>	<u>Boom</u>
EBIT	\$30	\$50	\$75	\$30	\$50	\$75
Interest	0	0	0	5	5	5
EBT	30	50	75	25	45	70
Taxes	11	19	28	9	17	26
EAT	19	32	47	16	28	44
# Shares	70	70	70	64	64	64
EPS	<b>0.27</b>	<b>0.45</b>	<b>0.68</b>	<b>0.25</b>	<b>0.44</b>	<b>0.69</b>

	<u>20 Percent Stock</u>			<u>80 Percent Stock</u>		
	<u>Recession</u>	<u>Normal</u>	<u>Boom</u>	<u>Recession</u>	<u>Normal</u>	<u>Boom</u>
EBIT	\$30	\$50	\$75	\$30	\$50	\$75
Interest	4	4	4	1	1	1
EBT	26	46	71	29	49	74
Taxes	10	17	26	11	18	27
EAT	16	29	45	18	31	47
# Shares	65	65	65	69	69	69
EPS	<b>0.25</b>	<b>0.44</b>	<b>0.69</b>	<b>0.27</b>	<b>0.45</b>	<b>0.68</b>

Financing 100% through equity maximizes EPS during an economic recession while financing exclusively through debt is the best option of EPS maximization is the goal during economic boom years. Krispy Kreme could employ a combination financing if it chose to, and it is important to note that even with 100 percent equity financing the firm would only be raising the total shares outstanding from 64 to 70 million. The firm currently is in a share buyback however. It is also possible Krispy Kreme could achieve the debt for significantly less than 5% considering the firm has virtually no debt and attractive liquidity ratios.

## N. Epilogue

Krispy Kreme Doughnuts is slowly shifting its focus from wholesale to more of a retail presence. Currently around 50 percent of revenues are derived from each source. However, KKD has always prided itself on hot fresh doughnuts that customers purchase directly from factory stores. As a result, the firm is building smaller-sized factory stores to better serve the retail customer directly. The company is also expanding its footprint internationally. In December 2014, KKD opened its 100th store in South Korea, a 3,200-square-foot doughnut theater facility with the full viewing area and the famous “Hot Doughnuts Now” sign. Also, in early 2015, KKD agreed with Doughnuts Café to establish 15 Krispy Kreme facilities in the greater Saint Petersburg, Russia area by 2020.

The company has many interesting options moving forward. There will be increased pressure on the firm to diversify further away from doughnuts into breakfast sandwiches, healthy muffins, and possibly even create more upscale sit down restaurants. All are quite different from Krispy Kreme’s true identify, which is creating delicious fried doughnuts with their signature glaze.

KKD recently began selling three bottled iced coffee flavors (mocha, vanilla, and caramel) in grocery stores KKD shops across the country. Already available, these ready-to-drink beverages come in flavors. They are offered in individual 10-oz. bottles as well as shareable 32-oz. options. With under 300 KKD stores in the United States compared to about 8,000 Dunkin' locations and over 12,000 Starbucks, KKD is small; Krispy Kreme is a small but growing business. The company recently launched Krispy Kreme K-Cup packs, danishes, and now ready-to-drink iced coffees that complement their Original Glazed and other doughnuts to expand its brand further nationally and globally.