



// CEO JIM MORGAN HAS KRISPY KREME
STICKING TO ITS GUNS.

KRISPY KREME

The 75-Year Roller Coaster

Experts say a brand must evolve with society, the marketplace, and consumers. So how has Krispy Kreme survived for 75 years by doing the exact opposite?

BY SONYA CHUDGAR

It seems so simple.

Seventy-five years ago, Krispy Kreme created a product people loved. It was nothing more than a deep-fried ball of dough with a hole in the middle, but since the time when Franklin D. Roosevelt reigned in the Oval Office, Krispy Kreme has reigned over the oval offering. Ask Krispy Kreme CEO Jim Morgan how the company stays solvent by focusing on a product as straightforward as the doughnut, and he gives a small laugh. "No one's ever asked that question before," he says. "That is interesting."

Of course, the secret to Krispy Kreme's success has been enigmatic for years. No one quite knows how the brand conceived the addictive recipe for the doughnut and leveraged it to convert everyday people into religious Krispy Kreme diehards (and made it look easy).

"One thing that really gave us a head start is [we have] that one product that, darn it, just happens to be the best product in the world," Morgan says. "I know there should be something more complicated than that, but I'm not sure there is."

Some experts say a brand that adheres to one product, however beloved, is unsustainable.

"Brand loyalty counts for a lot, and loyalists are great, but you can't keep milking the same cow," says Cliff Courtney, chief strategy officer at Zimmerman Advertising. Zimmerman is a national retail

brand builder and the agency behind quick serves such as Papa John's, White Castle, Firehouse Subs, and Boston Market.

"It's not enough for any brand to try and remain relevant today based on what they did in the past," Courtney explains. "All brands must evolve because society evolves. The marketplace evolves. Pricing evolves. Recessions evolve. You can't just say, 'We will stand for this forever.'"

That stance, however, is exactly Krispy Kreme's strategy.

THE HOLE IN ONE

The dough mix in Krispy Kreme's doughnuts has barely been altered in 75 years. The mix, in fact, is still blended in the same plant in Winston-Salem, North Carolina, that has been in place for 67 years. Much of the original equipment is still in use.

"I'll quote you a friend of mine when I came here a couple of years ago," says CMO Dwayne Chambers. "They said, 'Listen, I don't know what you're going to do there—just don't mess it up.'"

Unlike other concepts that constantly add new combos and menu items, Chambers says, Krispy Kreme has remained top of mind by understanding what its fans want—hot, fresh doughnuts—and concentrating on that without straying into other avenues.

The modest menu has given birth to an animated fan base. Krispy Kreme's Facebook page is 4.5 million fans strong—a feat, given the brand initiates little to no traditional marketing and has only 250 stores in the nation. Fans have been known to motor down highways on eight-hour road trips to access the nearest Krispy Kreme, and they take orders from friends and neighbors along the way.

Chambers says fans extrapolate an emotional connection to the sweet treat, and that bond heartens them to build and drive the concept.

"People come to Krispy Kreme not because they're hungry," Chambers explains. "There are a lot of things they could do to solve an appetite need. They come because they have a desire. It may be a reward for a great week or a tough week or a hard day. It may be that, 'Hey, I just got a new boyfriend,' or, 'Hey, I just lost my boyfriend.' Somehow, there's an emotional reason that people want to be comforted by doughnuts."

To feed the cravings, Krispy Kreme's R&D team has a roster of close to 300 doughnut varieties it can roll out. While the original glazed doughnut is still the biggest seller, Chambers says the multiplicity of toppings, fillings, shapes, characters, flavors, and themed doughnuts make the possibilities endless—except when it comes to health-focused doughnuts. The company learned its lesson when it debuted a whole-wheat doughnut in 2007.

"The story I like to tell is, I bought one and thought it was pretty doggone good," Morgan says. "Somewhere, someone else in the country bought one. And those are the two we sold. And that's not far from the truth."

Courtney says concocting a whole-wheat doughnut takes away from Krispy Kreme's identity as a favorable indulgence. "When Americans want to satisfy a craving, 47 percent of them choose unhealthy foods," he says. "So understand who you are and what you're selling."

Given that the barest menu item is the biggest seller, Morgan

says executives often talk about whether the novelty will ever wear off. "And the answer is no," he says. "I think it's not really novel; it's almost a staple ... I really don't worry about it being a trend or a fad or being out-motored."

SOME LIKE IT HOT

If anyone will be out-motoring the brand, experts say, it may be Krispy Kreme itself.

Licensing agreements are a core element of Krispy Kreme's business model that permit its doughnuts to be sold in supermarkets, convenience stores, gas stations, and retail shops. "It allows a bit broader distribution for people to have access to Krispy Kreme," Chambers says, as a grocery or convenience store is often more accessible for a fan than a Krispy Kreme shop.

But Courtney says that by licensing so broadly, Krispy Kreme lost sight of the principles it was based on.

"They built a brand on a core pillar of 'hot doughnuts now' in the magical stores that had the same kind of magical pixie dust that an In-N-Out Burger has. Sort of, 'Wow, I wonder if there will be one in my town some day,'" Courtney says.

"But then, all of a sudden, they took that brand, and without understanding what the values are of that brand, like the hotness and freshness that built the brand, they started selling them in grocery stores, cold. And selling them in outlets where they didn't even make the doughnut. They really just sold the doughnut out of these smaller spaces. And so they lost sight of the values that made the brand great."

Bonnie Riggs, restaurant industry analyst for the NPD Group, says Krispy Kreme's competition comes in part from the very convenience stores where it sells its product, especially as C-stores increase their emphasis on foodservice.

"I'm sure [Krispy Kreme] has a lot of brand loyalty, but we're looking at an industry that's not forecasted to grow much over the next decade," Riggs says. "It's really going to be a challenge and a battle for market share, especially within [quick service]."

GLAZED & CONFUSED

Of course, Krispy Kreme is well versed in battling for market share. A desire for national expansion drove Krispy Kreme management to dream big in the '90s and hatch a plan to expand the brand beyond the Southeast. They drove it to the West Coast, where stores opened to fanfare, overnight camp-outs, and long lines, as though George Lucas had just announced a new "Star Wars" movie.

In April 2000, Krispy Kreme debuted on the New York Stock Exchange, and its stock jumped 76 percent on its first day. Early success encouraged franchisees to borrow money and open shops rapidly.

Speaking with the wisdom of hindsight, Morgan, who was not CEO but on Krispy Kreme's board at the time, says the company expanded too rapidly. "We built enormous shops based on what the opening demand was as we spread throughout the country. I'm talking about 4,500–5,000-square-foot shops to sell nothing but doughnuts."

Executives also yearned to conquer the Northeast, an attainable though perilous mission given Dunkin' Donuts' headquarters in Massachusetts. In August 2003, Krispy Kreme's stock hit an all-time high of \$49.37, and by the end of the year, the company had locations in 43 states, including its first outlets in New England.

The sugar rush came to a dramatic halt in 2004. The market, oversaturated with Krispy Kreme shops that consumers once begged for, had shown Krispy Kreme the consequences of trying to outsmart the laws of supply and demand.

Its stock fell by more than 50 percent, and as stores nationwide permanently powered down glazers and boarded up, the Securities and Exchange Commission (SEC) started sniffing around the doughnut maker's finances.

In 2009—the same year the stock hit an all-time low of \$1.18 a share—the SEC would decisively conclude accountants had cooked the books.

KREME OF THE CROP

While trouble brewed at home, Krispy Kreme turned its eye on the international market to much success. Today, the company has more than 450 stores internationally, compared with 250 in the U.S., and Morgan announced plans to have at least 900 shops overseas by fiscal 2017. Back on track, the company also celebrated its 14th quarter of same-store sales growth this year.

"You see our stock drop from almost \$50 to \$1, it's hard to have that belief and that faith and that credibility," Morgan says. "We had to believe in ourselves again, we had to believe in the product, we had to believe in the brand, and we had to believe in the future."

He says the brand plans to spread more strategically across the U.S. this time around. Development will be taken on completely by franchisees, but, unlike the first expansion attempt, Krispy Kreme will support them with local-store marketing, regional operator support, and better labor management tools.

Executives contend Krispy Kreme has no direct competitor because the brand is built around emotional treats and shareable pleasures. Experts say even the logic that Dunkin' Donuts is Krispy Kreme's primary competitor is becoming weaker, as Dunkin' advances menu development in sandwiches and specialty drinks and continues its strong emphasis on coffee.

"Dunkin' Donuts has expanded," Courtney says. "You can get a chicken salad sandwich at Dunkin' Donuts. You can get an egg sandwich at Dunkin' Donuts. Who knows what Dunkin' Donuts will do next. As they diffuse what they stand for, the only doughnuts you'll find there are the ones on the logo."

This leaves Krispy Kreme free to reclaim its crown as emperor of the doughnut kingdom.

"Let [Dunkin' Donuts] be coffee, let them be chicken salad

sandwiches, let them be egg sandwiches," Courtney says. "We will come in [a Krispy Kreme store] and say, 'Thank god, someone still honors the almighty doughnut.' And I would say that's one way to be fully differentiated and really honor the food group that a lot of people have left behind."

Seventy-five years is a big achievement for the brand. Its global, yearlong celebration was styled as a birthday, not an anniversary, "because birthdays are a lot more fun," Chambers says.

To celebrate three-quarters of a century of Krispy Kreme memories, zeal, and tastes, the company threw a giant birthday bash at its headquarters in Winston-Salem in July. With the tag-



JIM MORGAN GREETES FANS AT KRISPY KREME'S 75TH ANNIVERSARY CELEBRATION IN WINSTON-SALEM, NORTH CAROLINA.

line "Celebrating 75 years of smiles," the weekend bustled with live music, free glazed doughnuts, rides, games, and cheerful fans.

Outside of the birthday bash, the party involves a virtual birthday card and the Krispy Kreme Cruiser crisscrossing the nation so fans can share their memories in person.

"[Customers] will write us letters about how it made a difference," Morgan says. "We'll get letters from people where their loved ones were literally on their death beds and their last wish was, 'Please go get me a Krispy Kreme doughnut.'"

"My own personal belief on that is, it's only partly that they wanted to taste it and eat a great doughnut. I think it's much, maybe even more, that by eating that doughnut, they would be swarmed with memories, just covered with wonderful memories that brought back prior portions of their life."

Witness the raw brand loyalty that has carried a simple doughnut shop for 75 years.

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