

# Harvard Business Case Krispy Kreme Doughnuts

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Seminar paper



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Seminar paper from the year 2003 in the subject Business economics - Investment and Finance, grade: 2,0 (B), University of Applied Sciences Essen (MBA International Financial Management Program), course: Financial Management II, 7 entries in the bibliography, language: English, abstract: Krispy Kreme Doughnut is an American corporation, which started business in 1937 as a small regional company. It developed quite well in the first years but started its big push end of the 90ies. Currently the concept is based on company stores, which produce

doughnuts and sell them to supermarkets and bakeries but also within the production facilities. To realise the growth of the past Krispy Kreme offered the business concept as a franchise to interested entrepreneurs within the whole US. The franchise concept has recently changed to an area developer concept under which entrepreneurs have the right to open a defined number of stores in a designated area. Krispy Kreme is on one hand an equity stakeholder in the franchisees to participate in the positive results and on the other hand they request royalties from the area developer and franchisees for every store based on the sales figures. For additional growth the franchise concept will be replaced by the area developer concept in the future. The third profit area is the sales of equipment to the area developer stores, which guarantees a constant quality of the products. Krispy Kreme Doughnuts went public in April 2000 and had a follow-on public offering in February 2001. Compared with the development of the SP 500 the stock of Krispy Kreme performed much better and won 375% whereas the SP500 lost about 20% in the same time period. The company has ambitious growth plans for the years 2003 and 2004. Based on these plans of the company, on the business concept, on the opportunities and on the competitive situation two analysts from CIBC World Markets have forecasted the business performance and financial situation of Krispy Kreme Doughnuts in 2003 and 2004. They have developed an Income Statement for these years; the purpose of this paper now is to analyse this forecast statement and give the management of Krispy Kreme Doughnuts an advice regarding their desired financial strategy and on the consequences this strategy might have for the overall strategy of the company.