**Consumer Behavior IA-2 Case Study**

Krispy Kreme makes 2.7 billion donuts per year. But it took more than fresh, hot donuts to earn Krispy the title of “Hottest brand in the US” in 2003. Krispy Kreme’s stocks quadrupled in the three years following its IPO in 2000, and the entire chain now generates a billion dollars in annual revenues across more than 300 outlets.

How did Krispy Kreme turn donuts into dollars? Careful brand positioning and local marketing tell the story. “We have a humble brand and product”, says Krispy Kreme CEO. “It’s not flashy”. The company is not new – it was founded in 1937 – and part of its brand image is an old-fashioned feel. The plain red, green, and white colors and retro graphics evoke the squeaky, clean Happy Days of the 1950s, as do the Formica-filled, kid-friendly shops. “We want every customer experience to be associated with a good time and warm memories,” CEO said.

The company’s brand image also rests on its fresh, hot donuts – a freshness that’s measured in hours. In a world of processed, prepackaged food, nothing beats a fresh, hot donut. The company’s marketing is grassroots local. Krispy Kreme has no traditional media advertising budget. Rather, local “community marketing managers” enlist the aid of social groups and charities. For example, a company helps charities raise money by selling them donuts at half price which they can resell at full price. Local bake sales become a promotional tool for Krispy Kreme.

Another tactic is giving away free donuts to TV, newspapers, and radio stations before entering a market. Brand scored a publicity coup in 1996 when it opened its first store in New York City. The company delivered boxes of donuts to the Today Show, garnering millions of dollars worth of national exposure for the price of a few donuts. Even the day of the IPO relied on the buzz from free Krispy Kreme donuts on the floor of the stock exchange. Each local outlet is an emissary for the brand, and Krispy Kreme’s signature Doughnut Theater defines the brand image. A multisensory experience, Doughnut Theater occurs several times a day at each shop. When the store flicks on its “Hot Doughnuts Now” sign, the performance is about to begin. A large plate-glass wall lets customers watch the whole process.

The Doughnut Theater experience works on three levels. On a direct level, the performance entertains customers and draws them into the donut-making experience. On an indirect level, it shows that the products are freshly made in a clean environment. On a subliminal level, as the CEO describes it,” the movement of the products on the conveyor through our proof box has this relaxing, almost mesmerizing effect. The only other thing like it is standing on the oceanfront and watching the tide come in. It has that same consistent, relaxing motion that is positive to people.” People flock to the store wave after wave of donuts that emerges hot and deliciously fresh. They happily stand in long lines around newly-opened outlets to get the aroma of the donuts being made, the sight of vanilla glaze waterfall, and the warmth of hot donuts that “Just melts in your mouth and tastes so good”, the CEO says.

  Doughnut Theater is a bit of show business that draws customers into the baking experience and makes them feel like they are part of the process. Another aspect of show business is product placement on hit shows like The Sopranos and Will & Grace and movies like Bruce Almighty. Finally, international expansion is fueled by celebrities like Dick Clark, Hank Aaron, and Jimmy Buffet, who clamored for Krispy Kreme franchises of their own. Krispy Kreme does not just grant franchise rights to anyone.

Krispy Kreme makes 65% of its revenue by selling donuts directly to the public through its 106 company-owned stores. Another 31 percent comes from selling flour mix, donut-making machines, and donut supplies to 186 franchised stores. The final 4% revenue comes from franchisee licenses and fees.

Krispy Kreme is now expanding and selling donuts through convenience stores. Will this hurt the brand? Stan Parker, Krispy Kreme’s senior VP of marketing, says it won’t because the company continues to emphasize freshness. It replenishes the packaged donuts daily from the local Krispy Kreme store and removes any unsold packages. The donuts’ presence in convenience stores will remind people of the taste of a fresh, hot Krispy Kreme donut and bring them back into a Krispy Kreme shop.

The success of Krispy Kreme has been a wake-up call for competitor Dunkin’ Donuts, which had become complacent. The one-two punch of Krispy Kreme in donuts and Starbucks in coffee led Dunkin’ Donuts to revamp its menu and its stores, neither of which had changed in years. Rather than innovate, Dunkin’ Donuts looked at what customers were already eating elsewhere. It brought in basic products like low–fat muffins and breakfast sandwiches. Dunkin’ Donuts still dwarfs Krispy Kreme in size, with 2003 revenues of $ 3 billion, but it must work to find new ways of creating excitement that builds customer pride because one thing is sure, Krispy Kreme refuses to be dull.

1. **What have been the key success factors for Krispy Kreme?**

**Answer:**

Krispy Kreme is the most popular food company in America. There are some key factors of Krispy Kreme to be most strong brand in America:-

* Old fashioned feel –They have been adopting one tradition for long time serving food to the customers which has worked as brand symbol.
* Theatre experience works – They perform different types of theatre which entertains customers and draws them into the donut-making experience .
* Showing the manufacturing process – They invite people to come to see how donuts are freshly made in a clean environment . So that, people are more attractive to buy donuts
* Concern with country people – Krispy Kreme does not work with franchise. They are busy with own country people to serve donuts so as to maintain the best food quality. People buy donut more for the best quality.
* Following different ways to convince media – Sending boxes of donuts into television media as gift which is one of strategy to bring out of publicity.
* Selling in half price – Krispy Kreme is selling donut in half price in charity shows. But charity shows organizer sells donuts at same price .That is why Donuts became popular very frequently. Because people are getting donuts at same price as outside of charity shows.

1. **Where is Krispy Kreme vulnerable? What it should watch out for?**

**Answer:**

* Consuming food is an essential part of everyday life; there are therefore many substitute products to Krispy Kreme’s doughnuts. Since the food industry does not have high profit margins, the competition is in a constant price war. If substitutes can find a way to lower their prices without significantly dropping their profitability, they can impose great threat to the entire industry. As a result, it is important for Krispy Kreme to closely observe the constant changes substitute companies are making in order to maintain their competitive advantage, Krispy Kreme must constantly monitor the continual adjustments that replacement firms make.
* The health-conscious customer is maybe Krispy Kreme's greatest challenge. Krispy Kreme doughnuts are by far one of the unhealthiest things you can have, with around 240 calories each donut. As a result, folks concerned about their own health are finding the once-sweet Krispy Kreme becoming sour in their lips.
* Failure to be proactive in addressing consumer health concerns, such as obesity, high cholesterol, and diabetes; could result in a significant loss of it's market share in the doughnut industry.
* Krispy Kreme should concentrate on diversifying their product portfolio. Competitors, such as Dunkin' Donuts, offer bagels, low-fat snacks, premium coffees, and have just introduced cinnamon sticks. They provide these items to stay abreast with the market's emerging dynamics. They continue to be the market's top competitor because they are always updating their product range to meet the demand of the customers.
* Overall, we can conclude that Krispy Kreme has still a strong position in the market. Although it is a smaller company with less financial backing, it remains competitive as its breadth of products appeals across all major demographic groups (including age and income). Its doughnuts have also stirred a cult-like following. Yet its recent problems in strategies (over expansion, unethical accounting procedures) and management could damage its position. Operating expense appears to be very high. Management needs to evaluate the excess in overhead.

1. **What should be way forward for marketing team of Krispy Kreme?**

**Answer:**

Krispy Kreme can continue growing in the market place, but it has to take active steps in several areas-

* As mentioned earlier, due to many people becoming health-conscious, focus should be more on incorporating healthier products and practices so that Krispy Kreme is not left far behind in the market and such people continue to choose their products.
* Krispy Kreme's strong tradition must catch up with technology in order to be effective in marketing. As we all know, social media is the most popular advertising medium in the world today. Krispy Kreme, given its age, must use these new advertising channels into their marketing approach.
* Given it’s popularity in the United States and it’s legacy of more than 75 years, the company must now try and explore international markets. If appropriate measures are not taken at the correct time regarding this, it may prove to be very harmful for the company in the long run.
* According to some analysts, the corporation's approach is unsustainable because a company cannot rely on the same product for decades. Krispy Kreme has made little modifications to its goods and menu since its inception. In 2014, the firm expanded its product line by selling coffee-related items including mocha Kreme doughnuts and mocha iced coffee. More such projects should be implemented in the future so that regular customers have something fresh to experience every time they visit the establishment..