Krispy Kreme Doughnuts Inc. – 2015

Forest R. David

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

		Krispy Kreme		Starbucks		Dunkin' Brands	
Critical Success Factors	Weight	Rating	Score	Rating	Score	Rating	Score
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
Totals	**1.00**		**2.17**		**3.57**		**2.44**

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

	Opportunities	**Weight**	**Rating**	**Weighted Score**
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
	TOTALS	**1.00**		**2.09**

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

	Krispy Kreme	**Dunkin' Brands**
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)

Krispy Kreme Doughnuts	
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
Method Average	**$663**

Dunkin' Brands	
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
Method Average	**$2,291**

IFE Matrix

	Strengths	Weight	Rating	Weighted Score
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

	Weaknesses	Weight	Rating	Weighted Score
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
	TOTALS	**1.00**		**2.72**

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).

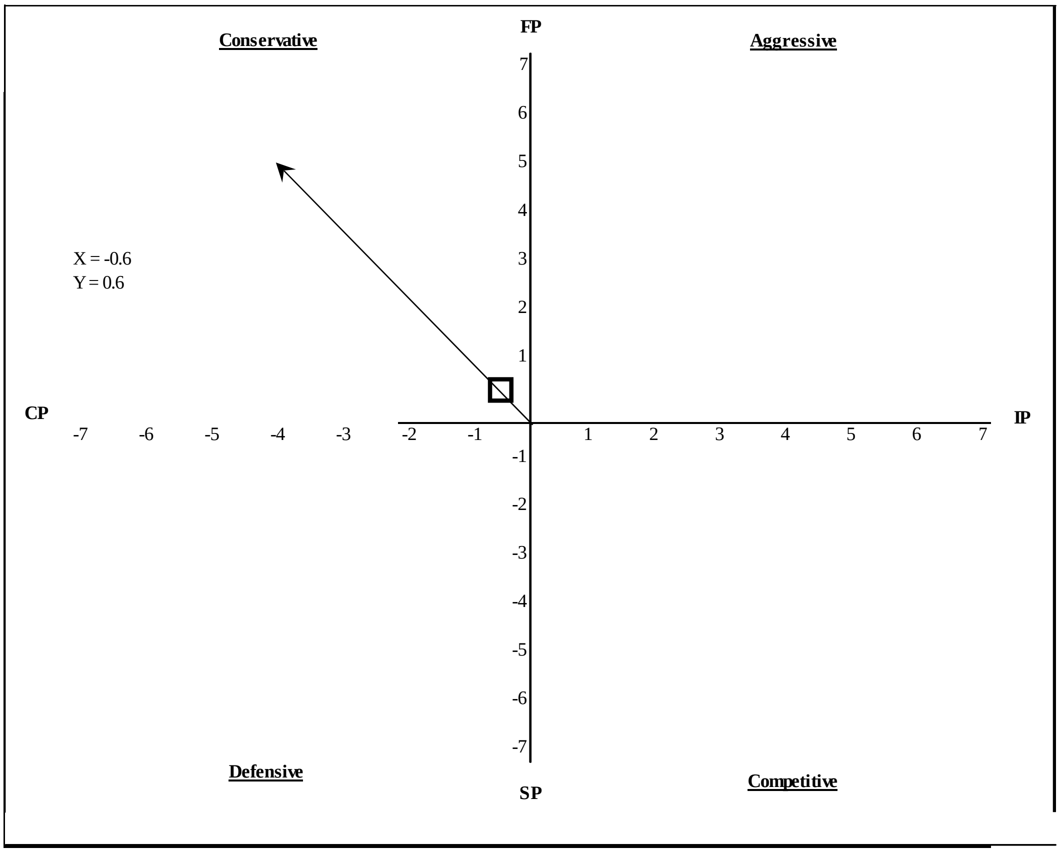
ST Strategies

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

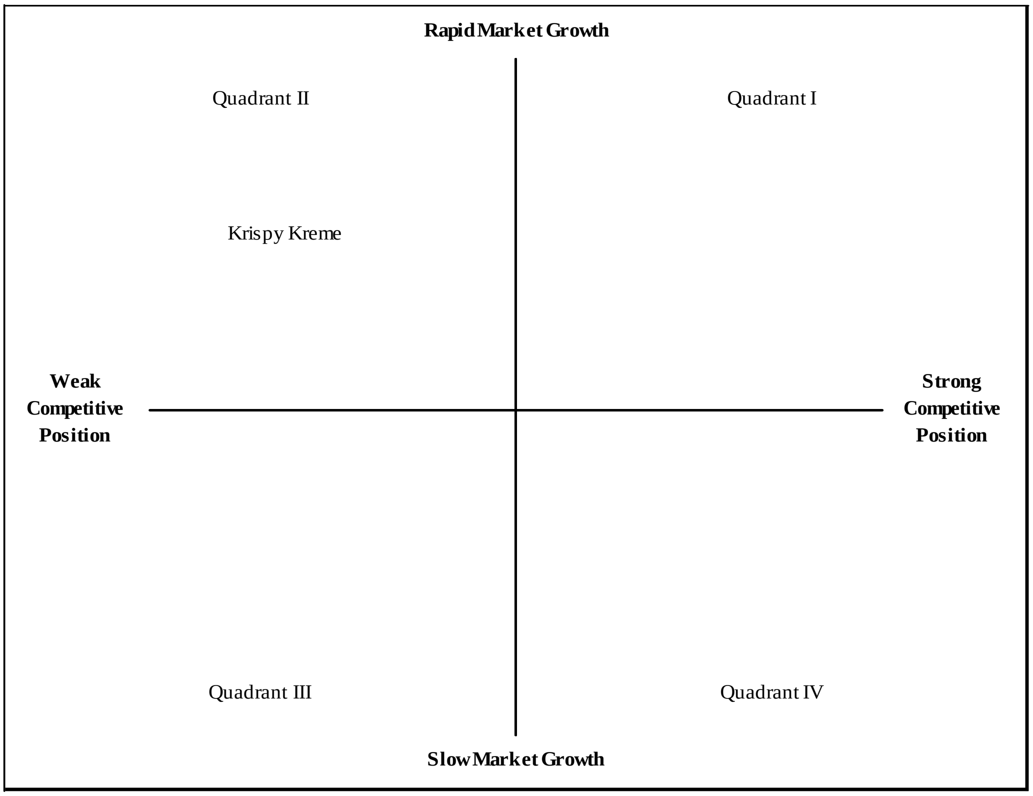


Financial Position (FP)		**Stability Position (SP)**	
Debt Ratio	6	Competitive Pressure	-6
Return on Total Assets (ROA)	2	Industry Margins	-5
Return on Equity (ROE)	2	Product Demand	-1
EPS	4	Product Line Diversity	-4
Current Ratio	7	Replacement Products	-2
Financial Position (FP) Average	**4.2**	**Stability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

Competitive Position (CP)		**Industry Position (IP)**	
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
Competitive Position (CP) Average	**-4.2**	**Industry Position (IP) Average**	**3.6**

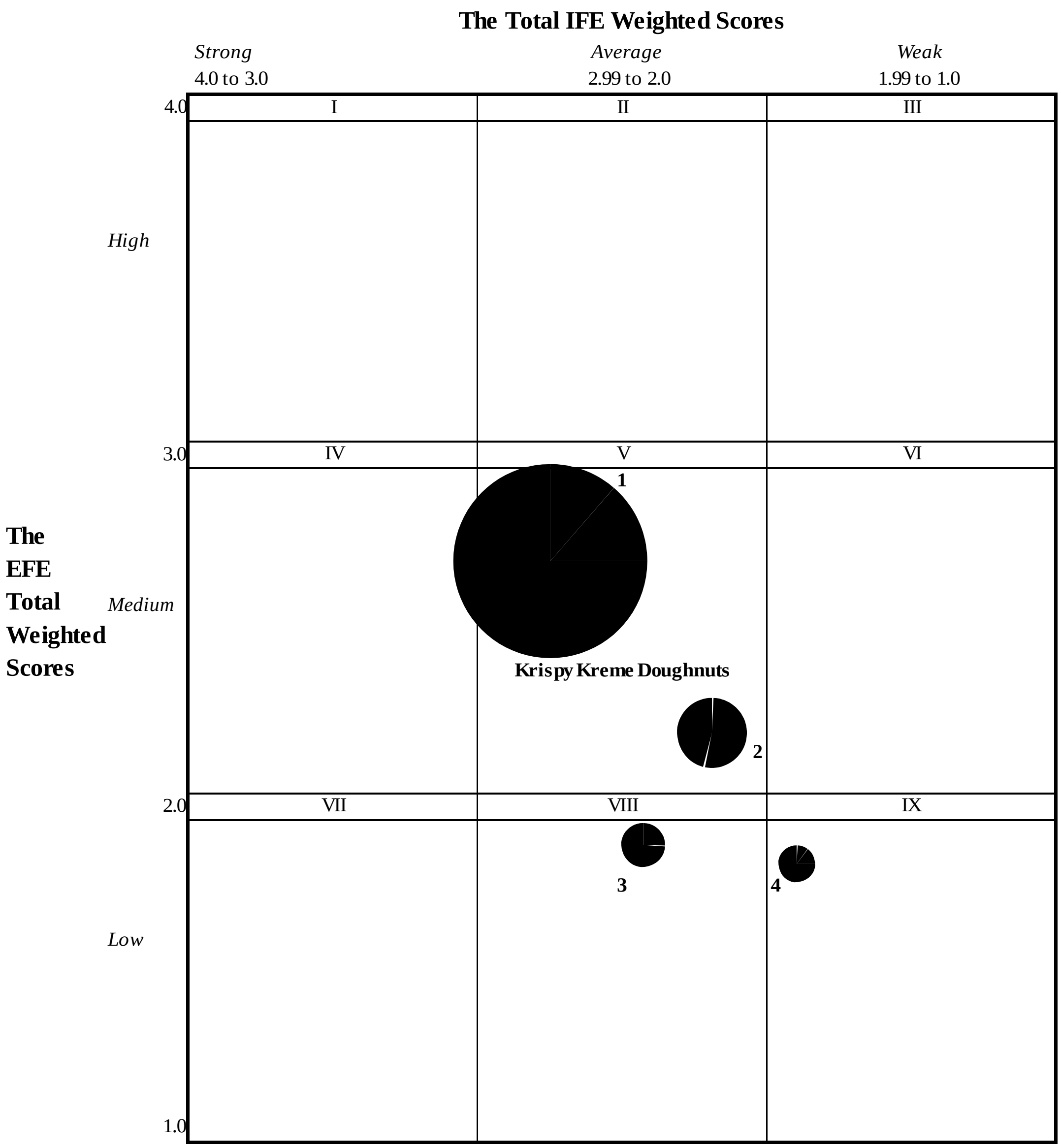
Krispy Kreme is positioned in the Conservative Quadrant of the SPACE Matrix. Viable strategies would include increasing advertising and obtaining new franchise agreements. The firm should also consider increasing marketing efforts in order to attract an increased number of customers purchasing coffee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

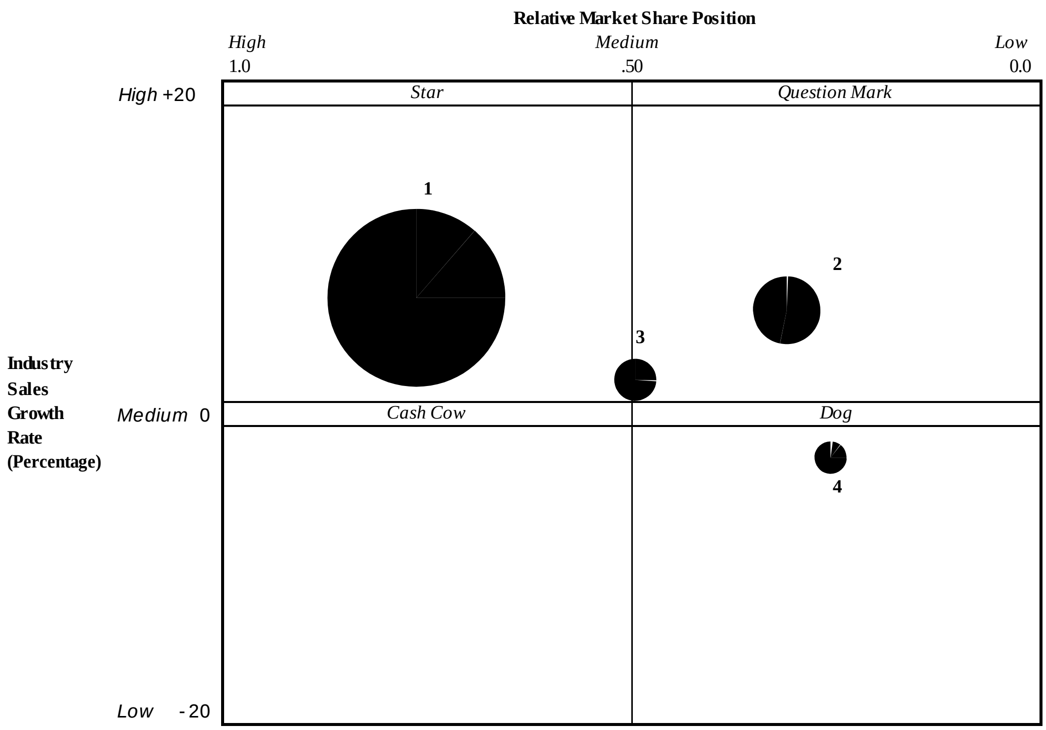
I. The Internal-External (IE) Matrix



Region	2015 Revenues (in millions)
1. United States	$439
2. Asia/Pacific	$28
3. Middle East & Europe	$13
4. Other Americas	$10

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

	Opportunities	Weight	Open 60 new stores across Latin America AS	Open 60 new stores across Latin America TAS	Develop a line of healthy menu items AS	Develop a line of healthy menu items TAS
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

	Threats	Weight	AS	TAS	AS	TAS
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

			Open 60 new stores across Latin America		*Develop a line of healthy menu items*	
	Strengths	**Weight**	**AS**	**TAS**	**AS**	**TAS**
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
	TOTALS			**3.27**		**2.18**

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%

	Common Stock Financing			Debt Financing		
	Recession	***Normal***	***Boom***	***Recession***	***Normal***	***Boom***
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	**0.27**	**0.45**	**0.68**	**0.25**	**0.44**	**0.69**

	20 Percent Stock			80 Percent Stock		
	Recession	***Normal***	***Boom***	***Recession***	***Normal***	***Boom***
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	**0.25**	**0.44**	**0.69**	**0.27**	**0.45**	**0.68**

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.

Domino’s Pizza, Inc. – 2013

Forest R. David

A. Case Abstract

Domino’s Pizza, Inc. is the second largest pizza chain in the world with operations in over 70 nations and over 10,200 stores as of March 2013. Domino’s trails only Yum Brand’s Pizza Hut in store numbers and global presence. Domino’s specializes in takeout and delivery of pizza and more recently chicken wings and sub sandwiches, but so far does not offer a dine in experience for customers. Lacking seating inside greatly reduces margins and startup costs for franchisees and allows products to be sold cheaper to more price-conscious buyers. Domino’s operates under three business segments: 1) Domestic Stores, 2) Domestic Supply Chain, and 3) International. The Domestic Supply Chain produces and/or supplies over 99 percent of all franchisee stores and accounts for over half of company- wide revenue. Founded in 1960, Domino’s is headquartered in Ann Arbor, Michigan.

B. Vision Statement (taken from stated mission)

To be the best pizza delivery company in the world.

C. Mission Statement (proposed)

At Domino’s, we are committed to providing our customers (1) around the world (3) an affordable, consistently high quality pizza, subs and chicken wings (2), with timely delivery each and every time they order (5,6,7). Our new PULSE computerized system (4) allows orders to be more streamline and accurate. The system also allows for nutritional labels to be printed and provides accurate driving directions for delivery drivers. With our new apps for mobile phones, and website platform, customers can ensure a quick and easy ordering process. We believe good ethics is good business, and strive to sponsor programs within the communities we serve (8). We hire only dedicated employees and selectively screen and train all potential franchisees (9).

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. Domino's is only serving approximately 50 percent of the international market they could possibly be serving.
2. There is a steadily growing international appetite for American fast food, and an improving global economy. Markets such as China, Russia, India, and Brazil are still relatively untapped.
3. Many customers are looking for healthier fast food options.
4. College campuses and shopping malls are often frequented by young people.
5. Over 16 percent of residents of the USA identify themselves as Hispanic.
6. Many customers in today's climate are willing to tolerate a degree of inconvenience if they can get a better deal.
7. Small margins in the restaurant business are the reason why so many mom-and-pops fail.
8. The current landscape in the Quick Service Restaurant (QSR) business is a bimodal population distribution with a large population of bargain-minded customers seeking deals on cheap fast food options, and another population of more affluent consumers targeting middle-to-higher end restaurants.
9. Domestic stores voted to increase their advertising revenue contribution to 5.5 percent in 2011.

Threats

1. Governments potentially forcing all restaurants to label all nutrition information on the menu at the point of sale.
2. Trademark and patent protection laws are not as sophisticated in developing countries.
3. YUM Brands (parent company of Pizza Hut) revenues are over 60 percent greater than Domino's.
4. Little Caesars was listed as the fastest growing pizza chain in 2010, with revenues up 13.6 percent over 2009, followed by Pizza Hut's 8 percent increase and Domino's 7.2 percent increase.
5. Many restaurants such as Wendy's, Subway, and even Pizza Hut offer customers low calorie options on the menu.
6. Currently, there are over 925,000 fast food service locations in the USA or one for about every 330 people.
7. Barriers to entry are relatively low for the restaurant industry, but rivalry (competitiveness) among firms is exceptionally high.
8. In the QSR industry, the bargaining power of consumers is quite powerful, availability of restaurant options in most places are abundant, and consequently there is intense price competitiveness among rival firms.
9. Wild fluctuations in commodity prices, especially prices in dairy products since they cannot be locked in for long periods of time, are particularly problematic for the industry.
10. Labor is the second greatest expense in the fast food industry.

Competitive Profile Matrix

		Domino's		Pizza Hut		Papa John's	
Critical Success Factors	Weight	Rating	Score	Rating	Score	Rating	Score
Advertising	0.08	2	0.16	3	0.24	4	0.32
Global Presence	0.10	3	0.30	4	0.40	1	0.10
Healthy Food Options	0.05	2	0.10	3	0.15	1	0.05
Store Locations	0.09	3	0.27	4	0.36	2	0.18
Brand Awareness	0.07	3	0.21	4	0.28	2	0.14
Dining Area	0.04	2	0.08	4	0.16	1	0.04
Financial Profit	0.12	2	0.24	4	0.48	1	0.12
Customer Loyalty	0.08	1	0.08	2	0.16	3	0.24
Market Share	0.10	3	0.30	4	0.40	1	0.10
Product Quality	0.07	2	0.14	4	0.28	3	0.21
Stockholders' Equity	0.12	1	0.12	4	0.48	2	0.24
Price Competitiveness	0.08	4	0.32	2	0.16	3	0.24
Totals	**1.00**		**2.32**		**3.55**		**1.98**

Domino’s score of 2.32 reveals a below average company with respect to Pizza Hut and Papa John’s. Over $1.5 billion in long term debt severely impacts Domino’s stockholders’ equity and financial profit.

EFE Matrix

	Opportunities	Weight	Rating	Weighted Score
1.	Domino’s senior management estimates the company is only serving approximately 50 percent of the international market they could possibly be serving.	0.10	4	0.40
2.	There also is a steadily growing international appetite for American fast food, and an improving global economy. Markets such as China, Russia, India, and Brazil are still relatively untapped.	0.08	3	0.24
3.	Many customers are looking for healthier fast food options.	0.08	1	0.08
4.	College campuses, shopping malls, and other high traffic areas are more commonly frequented by young people.	0.06	3	0.18
5.	According to the US Census in 2010, over 16 percent of residents of the USA identify themselves as Hispanic.	0.02	1	0.02
6.	While an inconvenience over delivery, many customers in today’s climate are willing to tolerate a degree of inconvenience that they historically were not if they can get a better deal.	0.03	3	0.09
7.	The small margins in the restaurant business are the reason why so many mom-and-pops fail.	0.02	3	0.06
8.	The current landscape in the Quick Service Restaurant (QSR) business is a bimodal population distribution with a large population of bargain-minded customers seeking deals on cheaper end fast food options, and another population of more affluent consumers targeting middle to higher end restaurants.	0.05	4	0.20
9.	Starting in 2009, domestic stores voted to increase their advertising revenue contribution rate to 5 percent and eventually to 5.5 percent in 2011.	0.06	4	0.24

	Threats	Weight	Rating	Weighted Score
1.	Governments potentially forcing all restaurants to label all nutrition information on the menu at the point of sale.	0.03	2	0.06
2.	Trademark and patent protection laws are not as sophisticated in developing countries.	0.02	2	0.04
3.	YUM Brands (parent company of Pizza Hut) revenues are over 60 percent greater than Domino's.	0.10	3	0.30
4.	Little Caesars was listed as the fastest growing pizza chain in 2010, with revenues up 13.6 percent over 2009, followed by Pizza Hut's 8 percent increase and Domino's 7.2 percent increase.	0.08	3	0.24
5.	Many restaurants such as Wendy's, Subway, and even Pizza Hut offer customers low calorie options on the menu.	0.06	1	0.06
6.	Currently, there are over 925,000 fast food service locations in the USA or one for about every 330 people.	0.03	2	0.06
7.	Barriers to entry are relatively low for the restaurant industry, but rivalry (competitiveness) among firms is exceptionally high.	0.03	3	0.09
8.	In the QSR industry, the bargaining power of consumers is quite powerful, availability of restaurant options in most places are abundant, and consequently there is intense price competitiveness among rival firms.	0.05	3	0.15
9.	Wild fluctuations in commodity prices, especially prices in dairy products since they cannot be locked in for long periods of time, are particularly problematic for the industry.	0.06	2	0.12
10.	Labor, is the second greatest expense in the fast food industry.	0.04	3	0.12
	TOTALS	**1.00**		**2.75**

Domino's received an above average EFE score of 2.75 which can be attributed largely to the excellent job Domino's has done with international expansion. Domino's still lags competitors by not offering a healthy line of menu items.

E. Internal Audit

Strengths

1. Domino's reached $1 billion in USA online sales in 2012 from its website, IPhone and Android apps alone, accounting for over 60% of all sales.
2. Domino's operates stores in 70 different nations.
3. International stores grew 30% from 2009 to 2012 to total 4,835 at year end 2012.
4. Backward integrated supply chain provides over 99% of supplies for franchisee stores.
5. Domino's enjoys large economies of scale and great brand recognition.
6. Domino's is exclusively a delivery/take out business, reducing overhead by not offering dine in space.
7. PULSE touch screen ordering system allows for increased order accuracy and provides driving directions to drivers.
8. Domino's Pizza markets their pizzas as having gluten-free crust.
9. Domino's recently introduced new Artisan pizzas, and new recipes (higher quality products) for their crust, sauce and cheeses.

Weaknesses

1. While many fast food restaurants have added healthy options, Domino's offers little with respect to healthy food options such as salads or fruit.
2. Domino's does not produce a sustainability report or have a sustainability statement on their website.
3. Domino's reported over $1.3 billion in negative stockholders' equity at yearend 2012.
4. Domino's is a relatively large company to operate under a functional type structure.
5. One large slice of hand- tossed, pepperoni pizza contains 300 calories and 12 grams of fat, and there are 8 slices in a pizza.
6. No dine in option.
7. Domino's suffered a quality image before the launch of the new Artisan pizzas, and there is some belief there remains a residual quality problem.

Financial Ratio Analysis

Profit Margin Percent	**Domino's**	**Industry**	**S&P 500**
Gross Margin	29.87	31.98	37.55
Pre-Tax Margin	10.79	17.46	16.89
Net Profit Margin	6.7	11.88	12.42
Liquidity Ratios			
Debt/Equity Ratio	NA	0.7	0.97
Current Ratio	1.3	0.7	1.2
Quick Ratio	1.2	0.6	0.8
Profitability Ratios			
Return On Equity	NA	36.7	20.88
Return On Assets	23.4	13.4	7.7
Return On Capital	42.2	16.3	10.2
Efficiency Ratios			
Income/Employee	11,239	16,959	129,395
Revenue/Employee	167,844	138,523	1.05 Mil
Receivable Turnover	18.5	49.3	14.2
Inventory Turnover	38.1	93	13.5
Asset Turnover	3.5	1.1	0.8

Domino's is a healthy company based on most of the financial ratios. However, $1.5 billion in long-term debt weighs heavily.

Net Worth Analysis (in millions)

Domino's Company Worth Analysis	
Stockholders' Equity	-$1,336
Net Income x 5	$560
(Share Price/EPS) x Net Income	$3,237
Number of Shares Outstanding x Share Price	$3,124
Method Average	**$1,396**

Papa John's Company Worth Analysis	
Stockholders' Equity	$182
Net Income x 5	$308
(Share Price/EPS) x Net Income	$1,504
Number of Shares Outstanding x Share Price	$1,418
Method Average	**$853**

Methods 3 and 4 are likely the best representation of company worth. Like Domino's, Papa John's is also heavily leveraged with long term debt.

IFE Matrix

	Strengths	Weight	Rating	Weighted Score
1.	Domino's reached $1 billion in USA online sales in 2012 from its website, IPhone and Android apps alone. Accounting for over 60 percent of all sales.	0.11	4	0.44
2.	Domino's operates stores, in 70 different nations.	0.09	4	0.36
3.	International stores grew 43 percent from 2008 to March 2013 to total 5,327.	0.08	4	0.32
4.	Backward integrated supply chain provides over 99 percent of supplies for franchisee stores.	0.09	4	0.36
5.	Domino's enjoys large economies of scale and great brand recognition.	0.07	4	0.28
6.	Domino's is exclusively a delivery/take out business, reducing overhead by not offering dine in space.	0.04	4	0.16
7.	PULSE touch screen ordering system allows for increased order accuracy and provides driving directions to drivers.	0.04	4	0.16
8.	Domino's Pizza markets their pizzas as having gluten free crust.	0.02	3	0.06
9.	Domino's recently introduced new Artisan pizzas, and new recipes (higher quality products) for their crust, sauce and cheeses.	0.05	4	0.20

	Weaknesses	Weight	Rating	Weighted Score
1.	While many fast food restaurants have added healthy options, Domino's offers little in respect to healthy food options such as salads or fruit.	0.06	1	0.06
2.	Domino's does not produce a sustainability report or have a sustainability statement on their website.	0.02	1	0.02
3.	Domino's reported over $1.3 billion in negative stockholders' equity at year end 2012.	0.15	1	0.15
4.	Domino's is a relatively large company to operate under a functional type structure.	0.05	2	0.10
5.	One large slice of hand tossed pepperoni pizza contains 300 calories and 12 grams of fat, and there are 8 slices in a pizza.	0.03	1	0.03
6.	No dine in option.	0.02	1	0.02
7.	Domino's suffered a quality image before the launch of the new Artisan pizzas and there is some belief there remains a residual quality problem.	0.08	2	0.16
	TOTALS	**1.00**		**2.88**

With a score of 2.88, Domino's is doing an above average job based on internal factors. One area of improvement would be to develop a healthy line of menu items.

F. SWOT

SO Strategies

1. Add 500 new stores over the next 3 years in China, India, and Brazil (S2, S3, O1, O2).
2. Add 500 new stores over the next 3 years in traditional European and Middle Eastern Markets (S2, S3, O1).
3. Increase advertising expenses from $40M to match Pizza Hut's $75M over the next 3 years to market the new Artisan pizzas and other new products (S9, O9).
4. Offer 15 percent off all takeout orders (S5, S6, O6, O8).

WO Strategies

1. Create and market a new Artisan salad (W1, W5, O3).
2. Add 500 new stores over the next 3 years in traditional European and Middle Eastern Markets (W3, O1).
3. Open 10 restaurants with a dining area as a pilot study near college campuses (W6, O4).
4. Restructure by division to further capitalize on any differences in consumption preferences in international markets (W4, O1, O2).

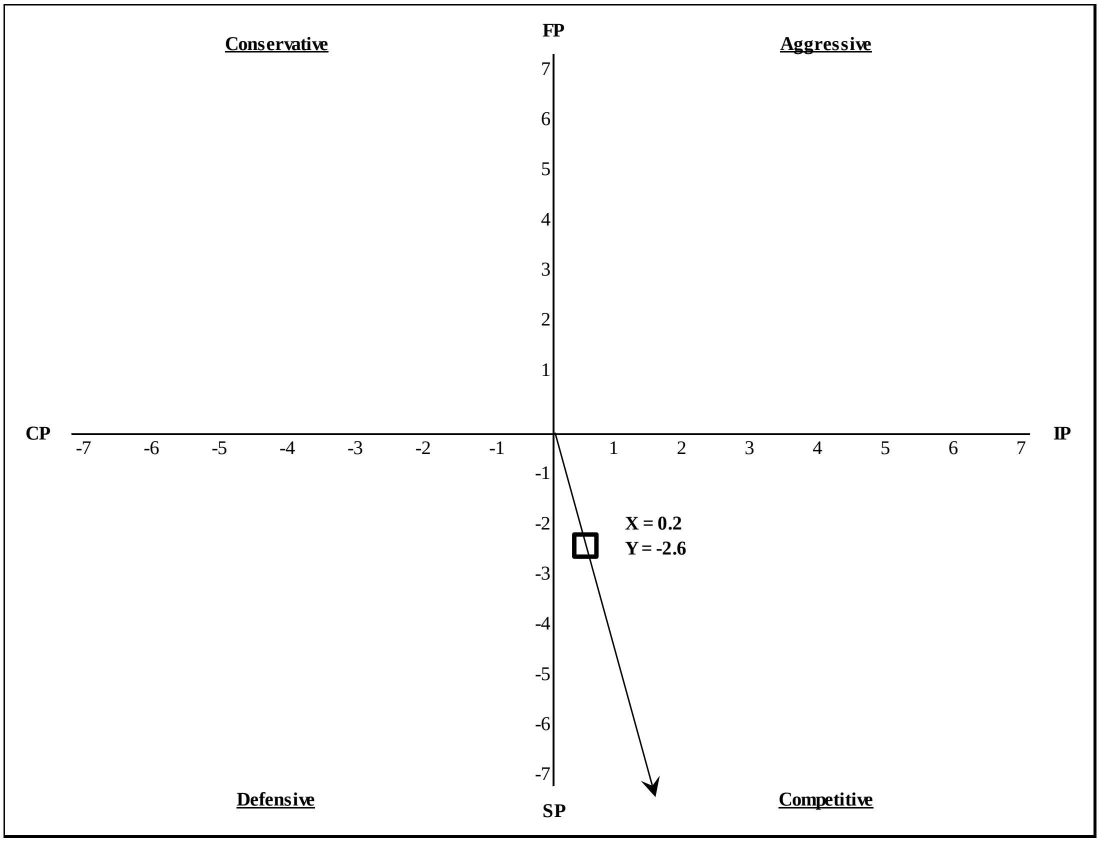
ST Strategies

1. Hire a market research firm to determine the value in offering discounts or other marketing strategies to combat against new competitors in select markets (S1, S5, T3, T4, T5, T6, T7, T8).
2. Market to consumers more readily the healthier aspects of Domino's pizza's (S8, T1).

WT Strategies

1. Create and market a new Artisan salad and pizza with lower-fat cheese (W1, W5, T1, T5).
2. Offer complimentary pizza at events around the world as a means of introducing customers to the new Artisan pizza recipe (W7, T3, T4, T5).

G. SPACE Matrix

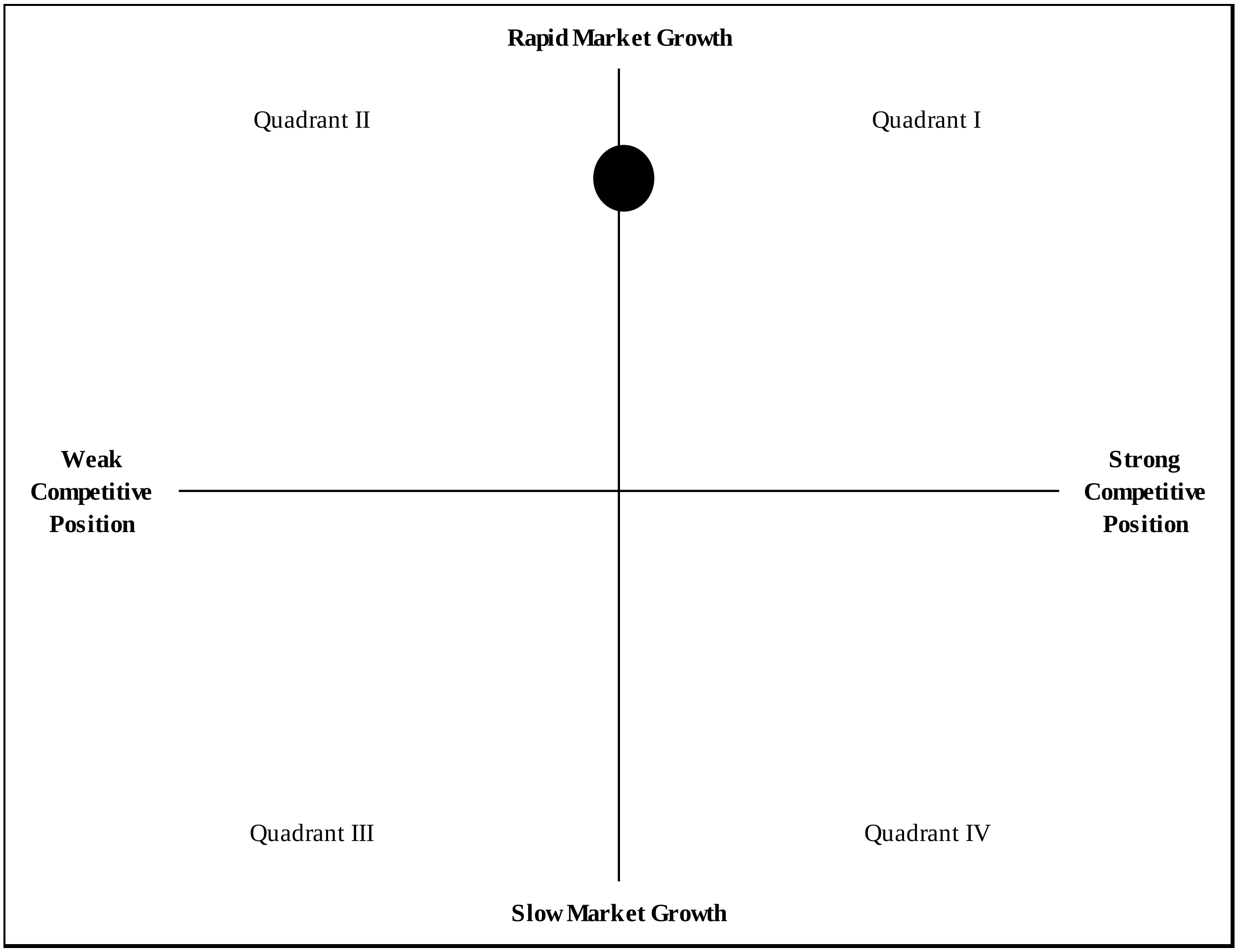


Internal Analysis:		*External Analysis:*	
Financial Position (FP)		**Stability Position (SP)**	
Stockholders' Equity	1	Rate of Inflation	-4
Debt/Equity	4	Healthy Minded Public	-7
Current Ratio	5	Rising Food Prices	-5
Cash	3	Competitive Pressure	-7
Net Income	2	Barriers to Entry into Market	-5
Financial Position (FP) Average	**3.0**	**Stability Position (SP) Average**	**-5.6**

Internal Analysis:		*External Analysis:*	
Competitive Position (CP)		**Industry Position (IP)**	
Market Share	-2	Growth Potential	6
Product Quality	-4	Financial Stability	3
Customer Loyalty	-5	Ease of Entry into Market	2
Technological know-how (PLUSE System)	-2	Ease of Obtaining Commodity Contracts	2
Control over Suppliers and Distributors	-3	Profit Potential	4
Competitive Position (CP) Average	**-3.2**	**Industry Position (IP) Average**	**3.4**

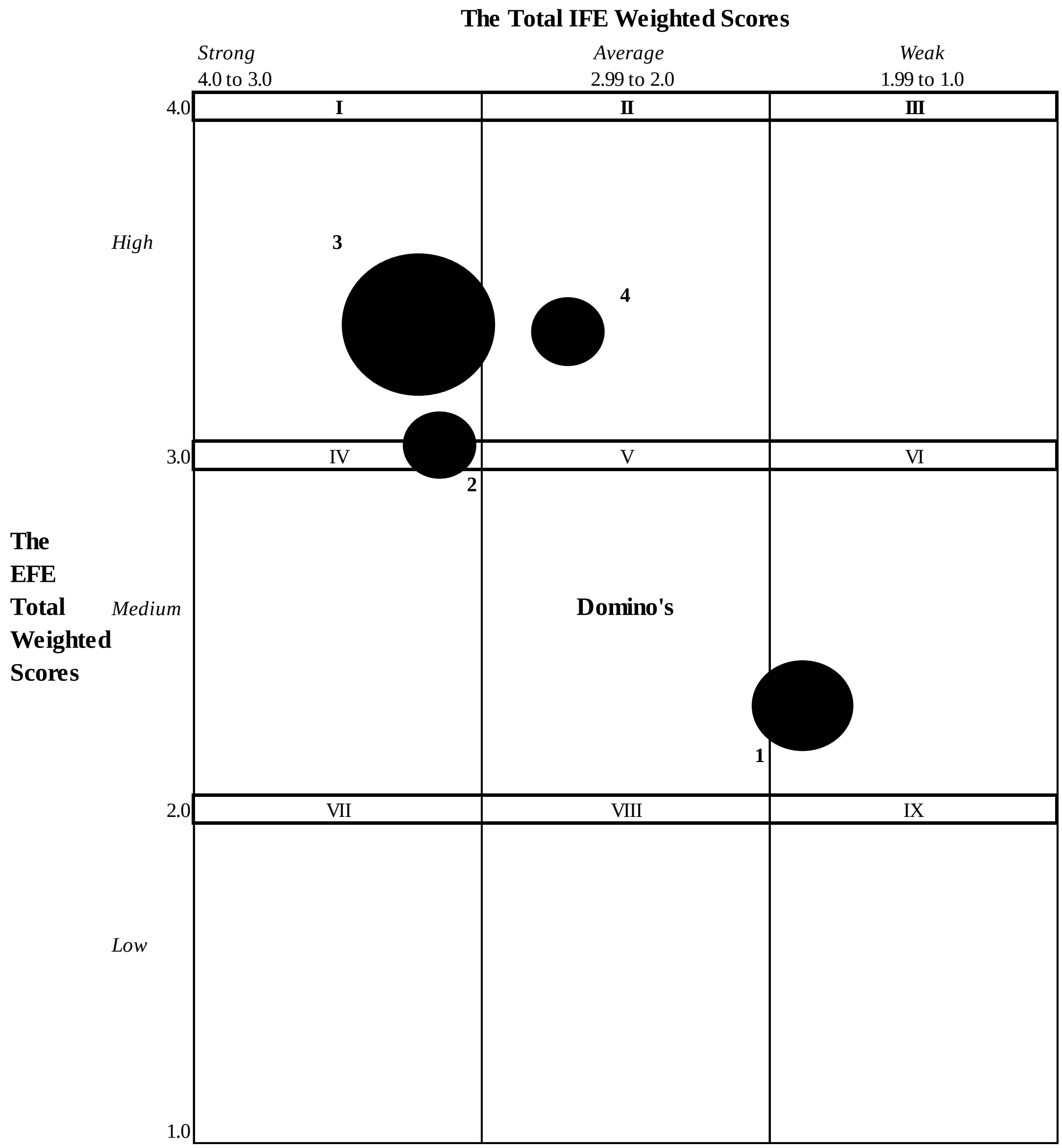
Domino’s lands in the Competitive Quadrant based mostly on 1) $1.5 billion in long term debt, 2) intense competition within the fast food industry and 3) Offering products that are generally not a healthy food choice. Domino’s should consider adding a line of salads to their menu to help move up the Y-Axis on the Space Matrix.

H. Grand Strategy Matrix



Domino's is clearly experiencing rapid growth, especially internationally; however, their competitive position is unclear lying somewhere between Quadrant I and II. While the company has many more locations and a much better international presence than Papa John's, Pizza Inn, and Little Caesars, the overriding debt problem is a concern. Yum Brand's Pizza Hut still remains supreme among pizza chains. Paying off debt would be a viable strategy for Domino's management.

I. The Internal-External (IE) Matrix



Business Segment	Revenue 2013	Revenue 2012	Revenue 2011
(1) Domestic Company Owned Stores	$324	$336	$345
(2) Domestic Franchise	195	187	173
(3) Domestic Supply Chain	942	928	876
(4) International	218	201	176
TOTAL	**$1,679**	**$1,652**	**$1,571**

Domino's Domestic Supply Chain segment is the true gem of all the segments. Backward integrated and serving 99% of domestic franchisees with their products is a recipe for an enduring revenue stream. While company owned stores have more revenue than either domestic or international franchises, much of Domino's long term debt problem is associated with these stores. Finding franchisees to place into these stores would be a viable strategy for Domino's.

J. QSPM

			Continue Robust International Expansion		*Develop a Line of Healthy Menu Options*	
	Opportunities	**Weight**	**AS**	**TAS**	**AS**	**TAS**
1.	Domino's reached $1 billion in USA online sales in 2012 from its website, IPhone and Android apps alone. Accounting for over 60 percent of all sales.	0.10	4	0.40	1	0.10
2.	Domino's operates stores, in 70 different nations.	0.08	4	0.32	2	0.16
3.	International stores grew 43 percent from 2008 to March 2013 to total 5,327.	0.08	1	0.08	4	0.32
4.	Backward integrated supply chain provides over 99 percent of supplies for franchisee stores.	0.06	0	0.00	0	0.00
5.	Domino's enjoys large economies of scale and great brand recognition.	0.02	0	0.00	0	0.00
6.	Domino's is exclusively a delivery/take out business, reducing overhead by not offering dine in space.	0.03	0	0.00	0	0.00
7.	PULSE touch screen ordering system allows for increased order accuracy and provides driving directions to drivers.	0.02	0	0.00	0	0.00
8.	Domino's Pizza markets their pizzas as having gluten free crust.	0.05	0	0.00	0	0.00
9.	Domino's recently introduced new Artisan pizzas, and new recipes (higher quality products) for their crust, sauce and cheeses.	0.06	0	0.00	0	0.00

	Threats	Weight	AS	TAS	AS	TAS
1.	Governments potentially forcing all restaurants to label all nutrition information on the menu at the point of sale.	0.03	1	0.03	4	0.12
2.	Trademark and patent protection laws are not as sophisticated in developing countries.	0.02	0	0.00	0	0.00
3.	YUM Brands (parent company of Pizza Hut) revenues are over 60 percent greater than Domino's.	0.10	3	0.30	2	0.20
4.	Little Caesars was listed as the fastest growing pizza chain in 2010, with revenues up 13.6 percent over 2009, followed by Pizza Hut's 8 percent increase and Domino's 7.2 percent increase.	0.08	4	0.32	3	0.24
5.	Many restaurants such as Wendy's, Subway, and even Pizza Hut offer customers low calorie options on the menu.	0.06	1	0.06	4	0.24
6.	Currently, there are over 925,000 fast food service locations in the USA or one for about every 330 people.	0.03	3	0.09	1	0.03
7.	Barriers to entry are relatively low for the restaurant industry, but rivalry (competitiveness) among firms is exceptionally high.	0.03	1	0.03	2	0.06
8.	In the QSR industry, the bargaining power of consumers is quite powerful, availability of restaurant options in most places are abundant, and consequently there is intense price competitiveness among rival firms.	0.05	0	0.00	0	0.00
9.	Wild fluctuations in commodity prices, especially prices in dairy products since they cannot be locked in for long periods of time, are particularly problematic for the industry.	0.06	0	0.00	0	0.00
10.	Labor, is the second greatest expense in the fast food industry.	0.04	0	0.00	0	0.00

			Continue Robust International Expansion		*Develop a Line of Healthy Menu Options*	
	Strengths	**Weight**	**AS**	**TAS**	**AS**	**TAS**
1.	Domino's reached $1 billion in USA online sales in 2012 from its website, IPhone and Android apps alone. Accounting for over 60 percent of all sales.	0.11	0	0.00	0	0.00
2.	Domino's operates stores, in 70 different nations.	0.09	4	0.36	1	0.09
3.	International stores grew 43 percent from 2008 to March 2013 to total 5,327.	0.08	4	0.32	1	0.08
4.	Backward integrated supply chain provides over 99 percent of supplies for franchisee stores.	0.09	0	0.00	0	0.00
5.	Domino's enjoys large economies of scale and great brand recognition.	0.07	2	0.14	3	0.21
6.	Domino's is exclusively a delivery/take out business, reducing overhead by not offering dine in space.	0.04	0	0.00	0	0.00
7.	PULSE touch screen ordering system allows for increased order accuracy and provides driving directions to drivers.	0.04	0	0.00	0	0.00
8.	Domino's Pizza markets their pizzas as having gluten free crust.	0.02	1	0.02	4	0.08
9.	Domino's recently introduced new Artisan pizzas, and new recipes (higher quality products) for their crust, sauce and cheeses.	0.05	1	0.05	2	0.10

	Weaknesses	Weight	AS	TAS	AS	TAS
1.	While many fast food restaurants have added healthy options, Domino's offers little in respect to healthy food options such as salads or fruit.	0.06	1	0.06	4	0.24
2.	Domino's does not produce a sustainability report or have a sustainability statement on their website.	0.02	0	0.00	0	0.00
3.	Domino's reported over $1.3 billion in negative stockholders' equity at year end 2012.	0.15	4	0.60	3	0.45
4.	Domino's is a relatively large company to operate under a functional type structure.	0.05	0	0.00	0	0.00
5.	One large slice of hand tossed pepperoni pizza contains 300 calories and 12 grams of fat, and there are 8 slices in a pizza.	0.03	1	0.03	4	0.12
6.	No dine in option.	0.02	0	0.00	0	0.00
7.	Domino's suffered a quality image before the launch of the new Artisan pizzas and there is some belief there remains a residual quality problem.	0.08	0	0.00	0	0.00
	TOTALS			**3.21**		**2.84**

K. Recommendations

1. Increase advertising expenses by $35M over the next 3 years to market the new Artisan pizzas and other new products.
2. Establish new franchisees for 1000 new stores over the next 3 years; (200 in Russia, 200 in India, 200 in China, and 400 in Europe/Middle East) for a cost of $100M. (many of these connections are already established).
3. Hire a market research firm to assess the feasibility of adding new healthy options to the menu for a cost of $5 million.

Total Amount of Funds Needed = $140M

L. EPS/EBIT Analysis (in millions expect for EPS and Share Price)

Amount Needed: $140
Stock Price: $55
Shares Outstanding: 57
Interest Rate: 5%
Tax Rate: 37%

	Common Stock Financing			Debt Financing		
	Recession	***Normal***	***Boom***	***Recession***	***Normal***	***Boom***
EBIT	$240	$280	$340	$240	$280	$340
Interest	0	0	0	7	7	7
EBT	240	280	340	233	273	333
Taxes	89	104	126	86	101	123
EAT	151	176	214	147	172	210
# Shares	59	59	59	57	57	57
EPS	**2.56**	**2.98**	**3.62**	**2.58**	**3.02**	**3.68**

	20 Percent Stock			80 Percent Stock		
	Recession	***Normal***	***Boom***	***Recession***	***Normal***	***Boom***
EBIT	$240	$280	$340	$240	$280	$340
Interest	6	6	6	1	1	1
EBT	234	274	334	239	279	339
Taxes	87	102	124	88	103	125
EAT	148	173	211	150	176	213
# Shares	57	57	57	59	59	59
EPS	**2.57**	**3.01**	**3.67**	**2.56**	**2.99**	**3.63**

The EPS/EBIT chart reveals debt financing as the most attractive alternative for all economic conditions. However, it is unclear if Domino's could acquire debt capital at 5%, given the firm's current $1.5 billion of long- term debt on the 2013 balance sheet. With the high stock price, and all recommendations (in this note) suggest having franchisees provide the capital for new stores, acquiring $140 million through equity would only increase total shares outstanding from 57 million to 59 million, so dilution of ownership is not a concern.

L. Epilogue

As of first quarter March 2013, Domino's continues to carry $1.5 billion in long-term debt on the balance sheet resulting in over $1.3 billion in negative stockholders' equity. Despite the continued troubles with debt, one interesting strategic change is as of March 2013. Domino's has changed their principle strategy of delivery speed to taking extra time to produce a top-quality pizza. Down are the advertisements of yester year, promising free pizzas if not at your door in 30 minutes and in is a nation-wide marketing campaign claiming Domino's pizzas are made fresh from never frozen dough, and it just takes a bit longer to make a better pizza. This campaign comes on the heels of Domino's starting their Artisan Pizzas and new recipes just a few years earlier. The new buzz word/slogan for Domino's newest marketing campaign is simply "try our Handmade Pan Pizza."

In addition to the new Handmade Pan Pizza, Domino's is rolling out a new $5.99 value menu that offers Penne Pastas, Stuffed Cheesy Breads, 8-piece chicken varieties, and Oven Baked Sandwiches. All of these products are in addition to the $5.99 medium two topping pizza pick-up special Domino's has offered in recent years. With the new products (and change in pizza recipe), Domino's is claiming through advertisements that 80 percent of their menu items are new since 2008.