

## Krispy Kreme CEO **Scott Livengood** discusses the allure of hot doughnuts, the

► Don't tell Scott Livengood that what his company sells are "just doughnuts." As the CEO of Krispy Kreme Doughnuts in Winston-Salem, North Carolina, Livengood (pronounced "lye-ven-good") knows better. From its 1937 roots as a small wholesale operation, the company has become a fixture in the family rituals and childhood memories of millions of customers. Some customers even travel hundreds of miles to attend Krispy Kreme grand openings and wait hours in line—all for a warm dozen of the company's signature Original Glazed.

The company has become such a part of American culture that last year the Smithsonian Museum in Washington, D.C., held an exhibit titled "Krispy Kreme: Taking a Bite out of History." That means much more than "just doughnuts" to Livengood, whose own 16th birthday included candles on 16 Krispy Kremes instead of birthday cake. That link to history and nostalgia—not to mention the promise of hot, fresh doughnuts—is something Livengood strives to maintain.

Livengood speaks of his role with Krispy Kreme with an almost devotional enthusiasm. He describes the dynamic among his company, its staff, and its customers as "fascinating," and he sees that dynamic as the most important measure of the company's failure or success. It was his interest in human interaction, in fact, that led him to earn a degree in industrial relations with a minor in psychology from the University of North Carolina, Chapel Hill, in 1974. In 1977, he came to Krispy Kreme as a human resources trainee. He became president in 1992, just as the company began its plan for growth; he moved to the CEO's position in 1998 and became chairman of the board in 1999.

Livengood's vision for the now-renowned purveyor of doughnuts has earned him industry kudos, including the 2001 Executive of the Year award from *Restaurants & Institutions* magazine. Under Livengood's leadership, the company has eschewed traditional advertising in lieu of enhancing its customers' in-store experiences, promoting charitable efforts, and, above all, maintaining the strength of Krispy Kreme's existing brand identity. Since 1999, Krispy

Kreme has expanded from 140 to 270 locations in 37 U.S. states, Canada, and Australia. Locations in the United Kingdom, New Zealand, Spain, Japan, and South Korea are in the works.

Livengood's tenure has not been without some criticism: After Krispy Kreme's outstanding initial public offering on the New York Stock Exchange in 2000, the value of its stock soared, leading many stock analysts to deem it "overvalued." And recently, when Livengood announced plans to use synthetic leases among franchisees (a legal off-balance-sheet arrangement that reports leases as expenses rather than liabilities), he was met with an uproar of protest. Understanding the new order of a post-Enron world, Livengood cancelled the company's plans and addressed the issue head-on by making the subject of ethics the centerpiece of the company's next corporate report.

That kind of openness is at the heart of Krispy Kreme's success, says Livengood. Even individual Krispy Kreme franchises integrate a sense of transparency. Rather than relegating doughnut-making to a back room, most locations feature a "doughnut theater" showing the operation at work. When the company's trademark neon sign, reading "Hot Doughnuts Now," is lit in the window, people outside know that the doughnut machine is up and running—it's time for what Livengood calls "the Krispy Kreme experience." Visitors gaze through a large pane of glass at the center of each store to see hundreds of raw doughnuts travel up and down through a rising station. Rows of doughnuts then float through a river of hot oil, cooking to a golden brown. They then glide via conveyor belt through a curtain of sweet powder-sugar glaze, to be boxed hot and fresh for the next customer in line.

Hungry for a hot doughnut now? Livengood certainly hopes so, as he discusses the building of a powerhouse brand.

photos by Will McIntyre, courtesy Krispy Kreme

consequences of ethical awareness, and the vision essential to leading an American tradition.

by **Tricia Bisoux**

**You've referred to the "Krispy Kreme experience," in which customers can view the making of the doughnuts, as the "defining element of the brand." How difficult is it to sell an experience, not just a product?**

One of our critical strategic goals is to continually elevate customers' experiences in the store, to make their experiences the fullest and most authentic expression of the brand that we possibly can. Customers have been able to view the making of the doughnuts for a decade, but in the '90s we made it much more prominent. Now, customers don't just see the end of the process or obliquely know that doughnuts are being made in the back corner. We put it right in the middle of the store. That's a great example of trying to listen to the customers and saying, "This is what they like. How can we do it better?"

**Krispy Kreme's example makes an excellent case study for business educators to teach students about the**

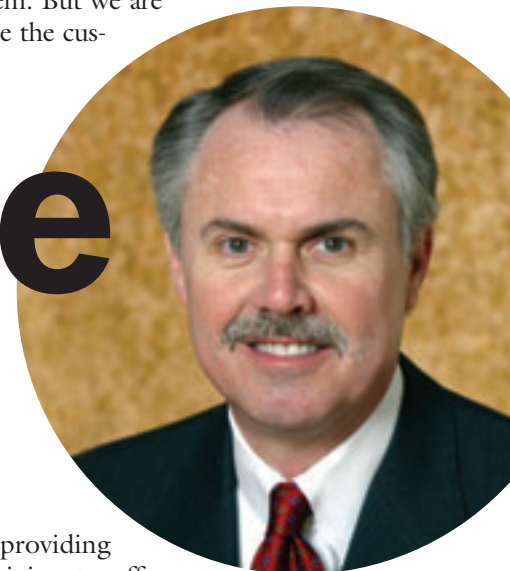
**Can such a simple change in vocabulary have such a profound effect?**

A simple change in vocabulary certainly doesn't change how people think. However, we've made a fundamental shift in the way we look at the execution of our wholesale and retail operations. Using the terms "on-premises" and "off-premises" reinforces that fundamental shift. The way I look at it, everything we do is retail. Using these new terms further validates the fact that it's all retail.

**You're now expanding Krispy Kreme's brand identity to include its own line of gourmet coffees. You've compared your company to Starbucks—do you now see Starbucks as a competitor?**

We don't offer products just because we see other businesses being successful with them. But we are looking at ways to elevate the cus-

# The Sweet Taste of Success



**nature of branding. What lessons have you learned in your rebranding efforts over the last few years?**

It has been a very organic process. In fact, we even changed our vernacular. Instead of using the terms "wholesale" and "retail" to describe our operations, for example, we now say "off-premises" and "on-premises." It changes the way we think about the company. Sometimes you just have to change your vocabulary.

Instead of viewing ourselves as a wholesale business that did some retail business inside our stores, we found we had to change the lens through which we viewed our business. We began to see ourselves as a specialty retail business set up for off-premises sales opportunities. By looking at it through that lens, we knew the brand experience was the most critical aspect. It opened the door to thinking about the business in a new way.

tomers experience by providing what is within our dominion to offer.

Coffee with doughnuts is a natural expression of the customer experience, something we've done as long as Krispy Kreme has been in the retail business. However, preferences and tastes have grown, and the demand for coffee has increased. We felt that any coffee we offer in our stores should be something proprietary. We see it as another way to fulfill our responsibilities to our customers.

**What if Starbucks decides to sell doughnuts?**

They might! But if that's what their customers want, then that's what they ought to do.

**You've opened your first locations in Australia and you're planning to go into markets such as the U.K.,**

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### **New Zealand, Spain, Japan, and South Korea. What can business students learn from your efforts to translate the American doughnut to global markets?**

Well, you know there's already a version of the American doughnut in most of those markets—it's not an unknown product. Many people from other countries come through our stores, and we've found that our customers do not skew demographically. Our experience has been that this is a universal product that will translate well.

As a result, our efforts have been less on marketing and more on making sure our stores will function in a comparable way. Most of our work has been on the front end: How do we translate our business model and local infrastructure into a different market? We have to look at basic aspects—equipment, for example. We manufacture our own doughnut-making equipment so we have to adapt our equipment to different electrical services and meet local codes. We also have to look at our beverage offerings to make sure we're providing what people want locally. In Australia, for example, we'll have to tweak our beverage offerings, because people there are more oriented to espresso-based drinks, like cappuccino and lattes. But in terms of the doughnuts, we're going with what has gotten us to this point. If we need to add a few varieties to reflect local tastes, we're certainly open to it.

### **Krispy Kreme has created a strong, almost visceral connection to its customers. What are the challenges of managing and growing a company like yours without losing that historic connection that your customers find important?**

Our history is something that has really become the centerpiece of our strategic thinking and how we present the brand. For many companies—some older companies, but particularly newer companies—the brand challenge typically lies in having to create an image and think of their brands in a more sophisticated or meaningful way. They tend to think about creating a brand mythology by asking, “What do we think? How do we think this product can connect with customers?”

Our situation is different. Because of our own personal experiences, we know our brand already has a special connection to the hearts of our customers. So, we've tried to understand what that connection is, what the mythology is that surrounds our brand. We've called this “brand exploration,” and it describes our efforts to understand the hierarchy of how our brand is experienced, to put it into words. As we start thinking about what we do and how we do it, we measure ourselves against what have already become stan-

dards for us. Our challenge has been more in discerning our brand mythology than in fabricating it.

### **“Brand mythology” is a term that's often used to describe the power of a brand. Why do you think we have started speaking of brands in terms of “myths” or even “legends”?**

If people thought of our brand as legendary, we certainly would be flattered! But that's not what I intend. When I think of a brand mythology, I think of our brand as a story or a promise. In many ways, it's an unwritten contract between our company and our customers, between our product and the experience our customers expect. Our brand's mythology has to do with trying to create a different way of thinking about our brand, of thinking of it as having a personality and a life. Our brand's mythology is a story—what we do has implications for how that story is interpreted. We become the authors of the story of the product.

### **Even with its historic roots, Krispy Kreme is no stranger to technology. In fact, your company already broadcasts its corporate meetings over the Web so that anyone interested can listen in. Why is that important to you?**

We do anything that gets us closer to people, whether it's our customers, our employees, or our investors. We must connect with people in ways that resonate as authentic. It's our belief that we shouldn't limit company information to analysts and shareholders alone; it should be available to everyone. That's why we Webcast our corporate meetings. We put our presentations together in ways that don't just reach the analysts but that speak to any interested person who would want to listen.

It comes back to the fact that we don't view ourselves as a company. We view ourselves as the stewards of a product and of a business enterprise. It's all about identifying with people in an authentic way.

### **You've used the term “authentic” several times. Many people might see that as a reference to ethics, but you seemed to mean it differently. How would you define the term?**

Well, if you're a crook, then I guess it does have to do with ethics! But if you're truly ethical, it doesn't. For us, authenticity is what we express as our company's values. It's simply a true expression of who we really are. We talk about authenticity in terms of how it relates to our brand and how we relate to each other.

If we're good brand stewards and we're translating the

of the brand that we possibly can.

brand appropriately, then authenticity will emanate from the words and phrases we use to describe the brand. It's not something our customers could necessarily articulate. But it's something they feel when they're in the store or when they're trying a new product. Whether it's a new coffee or a featured doughnut, it should resonate as a natural extension of Krispy Kreme, as something that we would do.

I'll give you a good example: We hired a researcher a few years ago and assigned him to develop a new featured doughnut program where every couple months we would come up with a new doughnut variety. The program had two objectives—to create something exciting to showcase and to provide us a way to test market new products.

We told him that we wanted offerings that were really outstanding. So he came up with new flavors—one was sold as a Black Forest cream-filled doughnut and another was sold as a tiramisu. They were just marginal in terms of new sales, so we looked at them more closely in relation to the brand personality profile that we created. We realized that a tiramisu doughnut was not authentic—it didn't resonate with the company. So, we came up with new doughnut varieties such as New York cheesecake, s'mores, triple chocolate, caramel apple, and key lime pie. Sales of those flavors have been off the charts because they are consistent with our brand personality. That's one of the ways that authenticity applies to us.

**Krispy Kreme recently made the news for its consideration of "synthetic leases," a legal off-balance-sheet accounting method for lease arrangements with its franchisees. Many criticized the company for that—do you think that criticism was deserved?**

I think it was totally undeserved and unfair. I typically try not to editorialize, but in this case I've been pretty up front about it. We have always been visible, which I celebrate. We try not to represent ourselves as any kind of an example, but we consistently try to act in ways that are appropriate. We knew that synthetic leases were a common practice—we also knew that, as a relatively new financial device, they could be misunderstood. So we disclosed our intentions to do it a year earlier in a Webcast conference call. Then, we put the entire lease in our second quarter SEC filings. To have it interpreted as some-



thing secretive or inappropriate seemed very unfair to me.

**You decided not to pursue the synthetic lease program, but you told *Fortune* magazine that "there has been a tremendous amount of damage done to honest people." Ethics are obviously important, but do you think some are taking the emphasis on ethics too far in the other direction?**

Well, you have to react to the circumstances that you're dealt. The last thing I wanted was to do anything that lessened our credibility. Our credibility means everything to us, so we had to deal with it, even if that meant terminating the program.

I think there's always a pendulum swinging to one extreme or the other. Over the past year, there have been some horrific disclosures and revelations that have done tremendous damage. It has become a rain falling on the good and the evil alike. But all business leaders should have an understanding and respect for the concern that exists because of those revelations. We went through a period where it was "shoot first and ask questions later," but I think that's understandable and expectable. It has led us to raise the bar internally and be aware of the environment we're in.

**Business schools have been faced with the challenge of teaching ethics. From your experience, it seems as if students not only need to learn about ethics, but also need the skills to cope when innocent actions are viewed as suspect. Being right isn't always enough, is it?**

I think students have to be sensitive and empathetic to what's being said, what's real, how it's being interpreted. They need to know that their own actions can be symbolic. They must look not only at how what they say can be interpreted, but also at how it can be *misinterpreted*. Maybe that can be taught, maybe not. But it has a lot to do with just being aware of the circumstances and conditions in which they'll find themselves.

**You earned your industrial relations degree from Chapel Hill. What attracted you to that aspect of business?**

My degree was based in human resources and I minored in psychology, which really prepared me for working in the HR field. In fact, my first role at Krispy Kreme was as a trainee in

## Students must have an environment where they are challenged, where they are **encouraged to have ideas**, and where they feel free to fail.

the human resources department. I've just always been fascinated with the dynamic of people in the organizational setting, in how people make the business succeed or not.

### **It sounds as if HR is a topic all business graduates should know, even if they're not planning on going into human resources specifically.**

Human resources is the reality of any business. It's all about people—the people who create the Krispy Kreme experience, our customers, our shareholders. It's not just what we do, but how we communicate and present it as something authentic that people can relate to. If students don't understand that it begins and ends with people, then they'll be at a real disadvantage. They should not just understand it, but be excited about it and celebrate it.

### **You've made almost your entire career at Krispy Kreme—you've been there since 1977. Did you go in thinking you were going to run this place someday?**

I was just happy to have a job! Being CEO was probably the last thing on my mind.

### **What did it take for you to work your way up to the CEO's position?**

I think everybody enjoys learning more about their environment, and I think everybody wants to make a contribution and feel as if they are valued members of the team. When I came to Krispy Kreme, the company was small enough and the task was large enough that we could really see the impact we were making. That meant a lot to me; it really made me feel as if I was a part of the team and a contributor. It was motivating to know that you could do something that affected so many people, and you could try things that sometimes worked and sometimes didn't.

### **What important management lessons have you learned along the way?**

One of the lessons we've taken to heart is to plant our seeds before we need to harvest, before we need to eat. We went out to meet with some of the industry leaders to learn their best practices before we began growing. We talked about the things that were critical to success—how to go through due diligence, how to train.

For example, I spent three days in Oakbrook, Illinois, at McDonald's home office and talked with 20 of its department heads. They were willing to share their best practices with me at a time when they were riding a lot higher than they are now. I've personally met with every CEO of every major food concept chain to learn from the things they were doing well.

### **You're on the Board of Visitors of Wake Forest University's Babcock Graduate School of Management. From that perspective, do you think business schools are truly preparing students for rapidly growing companies such as yours? Or are there areas where they miss the mark?**

Well, I think the challenge is enormous. When you talk about business, it's so multifaceted and multidimensional that I don't know how you prepare anybody. I've been encouraged to see that there is so much interest in just teaching students to think. Of equal importance is setting up the right preconditions that foster thinking and creativity. That is, students must have an environment where they are challenged, where they are encouraged to have ideas, and where they feel free to fail.

I also like the new emphasis on ethics, but I hope schools will go beyond just teaching "ethics," which often can be seen in terms of black and white. In the real world, that generally isn't the reality. It's important also to teach students to understand their own intentions so that they can articulate what they're trying to accomplish and why. It's about creating awareness, and it's about teaching students to think.

### **What do you think fresh business school graduates must know to be able to contribute to your company right off the bat?**

They need to know that their learning process has just begun. They need to look at what they've learned as a starting point, as a platform. Rather than try to make our company fit their vision, they need to understand how they're going to apply what they've learned and know how it translates into this environment. They should come in with a desire to learn and a desire to think. 