



WILL SUCCESS SPOIL KRISPY KREME DONUTS?

If you haven't had the pleasure of devouring some Krispy Kreme donuts, you've probably at least listened to friends who have sampled this confection rave about it. Or maybe you've read about these tasty treats in the business news. The reason for the growing publicity? The 63-year-old Winston-Salem, North Carolina, donut maker is launching a concerted effort to expand the number of its franchises across the United States. Once available only in the Southeast, Krispy Kreme donuts can now be purchased hot off the conveyor belt at 151 stores in 27 states. The company even went public earlier this year.

Future Fears

All of this is good news for Krispy Kreme, and great news for anyone who has been deprived of the donuts because of simple geography. However, some fans—especially those in a systems thinking frame of mind—are watching the new developments a bit anxiously. They worry that Krispy Kreme will suffer the same fate that the Adolph Coors company experienced. In the 1970s, when Coors beer was available only in parts of the

American West, it developed a cult following on college campuses across the rest of the country. Once it "went national" in the 1980s, Coors became just another light brew. As Emanuel Goldman, a consumer-products analyst at Merrill Lynch, notes, "People want what they can't get."

Krispy Kreme also stands to experience problems if it lets the quality and distinctiveness of its famous donuts decline as it recruits more and more franchisees. The fact is, the more Krispy Kreme shops there are—and the more widely scattered they get—the more difficult it's going to be for the company's owners to control the consistency and uniqueness of their product. Celebrated for their sweet flavor and "pillowy" softness, Krispy Kreme donuts are still made using a secret recipe that the uncle of founder Vernon Rudolph purchased from Joe LeBeau, a one-time steamboat cook from Louisiana. Rumor has it that no other donut tastes quite like a Krispy Kreme.



Theater and Hot Donuts

Even the experience of buying donuts at a Krispy Kreme store is unique. Plate-glass windows let viewers watch as the little pastries make their way from the dough extruders to the frying vat to a "waterfall" of glaze. Served hot and gooey, straight out of the fryer, the donuts have a "squishiness" that is unparalleled in the baked-goods world. The red neon sign out front reading "Hot Doughnuts Now" says it all—and serves to drive customers' lust for the pastries to a fever pitch. This potent combination of theater and hot donuts may be hard to sustain as Krispy Kreme expands across the country.

Though the company has grown gradually in the past, it would do well to anticipate and manage the problems and limits that overly ambitious expansion can trigger. Otherwise, its mystique and exclusiveness may melt away like a Krispy Kreme donut on a pastry lover's tongue. ■

Source: James Hagerty, "Krispy Kreme at a Crossroads," *The Wall Street Journal*, February 24, 2000.

—Lauren Keller Johnson

YOUR WORKOUT CHALLENGE

Systems Thinking Workout is designed to help you flex your systems thinking muscles. In this column, we introduce scenarios that contain interesting systemic structures. We then encourage you to read the story; identify what you see as the most relevant structures and themes; capture them graphically in causal loop diagrams, behavior over time graphs, or stock and flow diagrams; and, if you choose, send the diagrams to us with comments about why the dynamics you identified are important and where

you think leverage might be for making lasting change. We'll publish selected diagrams and comments in a subsequent issue of the newsletter. Fax your diagrams and analysis to (781) 894-7175, or e-mail them to editorial@pegasuscom.com.

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