

Dunkin' Donuts: Betting Dollars on Donuts

Once a niche company operating in the northeast, Dunkin' Donuts is opening hundreds of stores and entering new markets. At the same time, the java giant is broadly expanding both its food and coffee menus to ride the wave of fresh trends, appealing to a new generation of customers. But is the rest of America ready for Dunkin' Donuts? Can the company keep up with its own rapid growth?

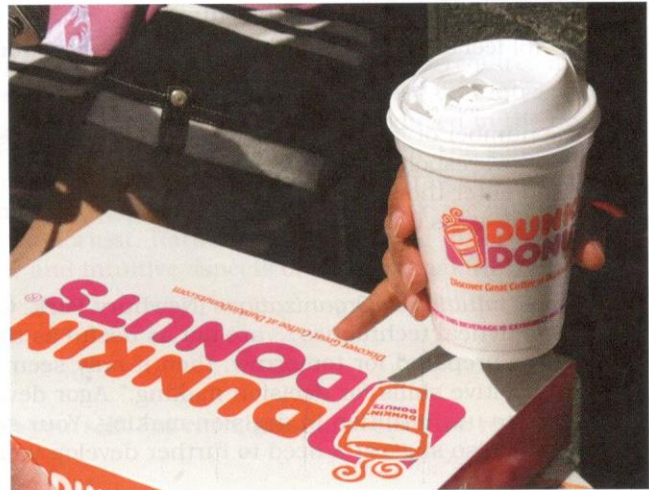
Serving the Caffeinated Masses

There's a lot more to a coffee shop than just change in the tip jar. Some 400 billion cups of coffee are consumed every year, making it the most popular beverage globally. Estimates indicate that more than 100 million Americans drink a total of 350 million cups of coffee a day.¹ And with Starbucks driving tastes for upscale coffee some customers may wonder whether any coffee vendors remember the days when drip coffee came in only two varieties—regular and decaf. But Dunkin' Donuts does, and it's betting dollars to donuts that consumers nationwide will embrace its reputation for value, simplicity, and a superior Boston Kreme donut.

Winning New Customers

Most of America has had an occasional relationship with the Dunkin' Donuts brand through its almost 5,800 domestic outlets, which have their densest cluster in the northeast and a growing presence in the rest of the country.² But the brand has also managed to carve out an international niche, not only in expected markets such as Canada and Brazil, but also in some unexpected ones, including Qatar, South Korea, Pakistan, and the Philippines.³

If the company has its way, in the future you won't have to go very far to pick up a box of doughnuts. "We're only represented large-scale in the northeastern market," said Jayne Fitzpatrick, strategy officer for Dunkin' Brands, mentioning plans to expand "as aggressively" as possible. "We're able to do that because we're a franchise system, so access to operators and capital is easier."⁴ How aggressively? According to John Fassak, vice president of business development, the company plans



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to expand to 15,000 outlets by 2020. Sample cities in the Midwest reveal heavy investment: 50 more stores planned in Milwaukee, more than 100 in St. Louis, and 30 in central Ohio.⁵

What Would Consumers Think?

None of Dunkin' Donuts' moves makes much difference unless consumers buy into the notion that the company has the culinary imperative to sell more than its name suggests. If plans prove successful, more customers than ever may flock to indulge in the company's breakfast-to-go menu. If they don't, the only thing potentially worse for Dunkin' Donuts than diluted coffee could be a diluted brand image. After more than 50 years, the company has a reputation for doing two things simply and successfully—coffee and donuts. Even when consumers see the line of products expand into what was once solely the realm of the company's competitors, they may be unconvinced that Dunkin' Donuts is *the* shop to go to for breakfast.

For most of its existence, Dunkin' Donuts' main product focus has been implicit in its name: donuts, and coffee in which to dip them. First-time customers acquainted with this simple reputation were often

overwhelmed by the wide varieties of donuts stacked end-to-end in neat, mouthwatering rows. Playing catch-up to the rest of the morning market, Dunkin' Donuts has only recently joined the breakfast sandwich game.⁶

According to spokesperson Andrew Mastroangelo, Dunkin' Donuts sells approximately one billion cups of coffee a year, for 62% of the company's annual store revenue.⁷ Considering that coffee is the most profitable product on the menu, it's a good bet that those margins give the company room to experiment with its food offerings.

Changing Course to Follow Demand

Faced with the challenge of maintaining a relevant brand image in the face of fierce and innovative competition, Dunkin' Donuts pursued a time-honored business tradition—following the leader. The company now offers a competitive variety of espresso-based drinks complemented with a broad number of sugar-free flavorings, including caramel, vanilla, and Mocha Swirl.⁸ Furthermore, ever-increasing competition in the morning meal market made an update to Dunkin' Donuts' food selection inevitable. The company currently focuses on bagel- and croissant-based breakfast sandwiches, including its new Oven-Toasted Breakfast line.

On Every Corner

Starbucks is known for its aggressive dominance of the coffee marketplace. When a competitor opens a new store in town, Starbucks doesn't worry. It just opens a new store across the street, in a vigorous one-upmanship that conquers new ground and deters competitors. But many who have struggled to compete with Starbucks have had to do so with limited resources or only a few franchises. Not so with Dunkin' Donuts, whose parent brand, Dunkin' Brands, also owns Baskin-Robbins. This David might just have the heft and strategy needed to take on the "Green Goliath."

Simple Food for Simple People

Dunkin' Donuts' history of offering simple and straightforward morning snacks has given it the competitive advantage of distinction as *the* anti-Starbucks—earnest and without pretense. Like Craftsman tools and Levi's jeans, the company offers a comforting sensibility appealing to simple, modest, and cost-conscious customers.

The Sweet Spot Has a Jelly Center

Dunkin' Donuts is trying to grow in all directions, reaching more customers in more places with more products. According to Fassak, achieving proper retail placement can be a delicate balance. Although Dunkin' Donuts often partners with a select group of grocery retailers—such as Stop & Shop and Wal-Mart—to create a store-within-a-store concept, the company won't set up shop in just any grocery store. "We want to be situated in supermarkets that provide a superior overall customer experience," he said. "Of course, we also want to ensure that the supermarket is large enough to allow us to provide the full expression of our brand... which includes hot and iced coffee, our line of high-quality espresso beverages, donuts, bagels, muffins, and even our breakfast

sandwiches." Furthermore, the outlet's location within the supermarket is critical for a successful relationship. "We want to be accessible and visible to customers, because we feel that gives us the best chance to increase incremental traffic and help the supermarket to enhance their overall performance," Fassak said.

The company is banking on these mutually beneficial partnerships to help it achieve widespread marketplace prominence. Dunkin' Donuts is a nationally known brand with a long reputation for quality, giving the company the benefit of not having to work hard to earn many customers' trust. And if Dunkin' Donuts can find the sweet spot by being within most consumers' reach while falling just short of a Big Brother-like omnipresence, the company's strategy of expansion may well reward it very handsomely.

But this strategy is not without its risks. In the quest to appeal to new customers, offering too many original products could dilute the essential brand appeal and alienate long-time customers who respect simplicity and authenticity. Conversely, new customers previously unexposed to Dunkin' Donuts might see it as "yesterday's brand."

If Dunkin' Donuts' executives focus too narrowly on franchising new stores, they might not be aware of issues developing in long-standing or even recently established stores. Some older franchises seem long overdue for a makeover, especially when compared to the Starbucks down the block.

For the time being, Dunkin' Donuts seems content to continue its methodical quest for continental domination of the coffee and breakfast market. In order to keep up with the latest health concerns, it has reformulated its cookies and muffins to avoid trans fats. The company has even begun shifting its donut production from individual stores into centralized production facilities designed to serve up to 100 stores apiece. Will Dunkin' Donuts strike the *right* balance of products and placement needed to mount a formidable challenge against competitors in both the breakfast and coffee markets?

DISCUSSION QUESTIONS:

1. What does a Porter's Five Forces analysis reveal about the industry in which Dunkin' Donuts and Starbucks compete, and what are its strategic implications for Dunkin' Donuts?
2. In what ways is Dunkin' Donuts presently using strategic alliances, and how could cooperative strategies further assist with its master plan for growth?
3. Which of the globalization strategies will work best in Dunkin' Donuts's global expansion and why?
4. **FURTHER RESEARCH**—Gather information on industry trends, as well as current developments with Dunkin' Donuts and its competitors. Use this information to build an up-to-date SWOT analysis for Dunkin' Donuts. If you were the CEO of the firm, what would you consider to be the strategic management implications of this analysis, and why?