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Episode 3: Daryl Brewster, former CEO of Krispy Kreme, on saving an iconic brand

Transcript

Mike Kearney: Krispy Kreme, just saying that name brings back some incredible memories of my kids and I going to the Krispy Kreme located near my hometown in northern California. You know, I have these vivid memories of driving down the highway, Highway 680 for those of you in northern California, where they have the “Hot Now” sign. And every time that sign is lit up my kids are just dying to go.

When you look at Krispy Kreme and their story, they were on top of the world in the early 2000s. In fact, in 2003 *Fortune* magazine anointed Krispy Kreme as America’s hottest brand. But we all know that story didn’t last forever. In the mid-2000s they ran into some challenges that really took the wind out of their sail. Things like accounting irregularities. Who would want to be associated with that? Unhappy franchise owners. And who remembers the low carb craze?

Daryl Brewster: We were at the edge and the sharks were swirling around the tank here. The blood was in the water at Krispy Kreme.

Mike Kearney: Welcome to Resilient where we hear the stories from leaders on risks, crisis, and disruption. And we get those stories by jumping on a plane and going and meeting our guests on their home turf. My name is Mike Kearney and I lead Deloitte’s Strategic Risk practice. Today I’m in New York City and it is a beautiful day, I do have to tell you. I have the great fortune of meeting with Daryl Brewster, the CEO of CECP and a long-time executive in the food industry who was brought in to Krispy Kreme in 2006 to bring the company back to its glory.

Mike Kearney: Hey, Daryl, welcome to Resilient. Thank you so much for joining us today.

Daryl Brewster: Great. Thank you, Mike. It’s a delight to be here.

Mike Kearney: I've been excited for this interview. We've got a lot to talk about today. But I want to start off with your time at Krispy Kreme. Obviously, you were named CEO at the beginning of 2006, a pretty tumultuous time for the organization. I'd love to just start with kind of what was the state of the business when you took over?

Daryl Brewster: Not good. Krispy Kreme is this wonderful brand that had been around for decades, but was really going through some great difficulties. We were facing billions of dollars in lawsuits, hundreds of millions of dollars of debt with negative cash flow, tens of millions of dollars of guarantees of franchisees that we had to at some point be prepared to deal with. Our turnover among employees was running over 20 percent. Our franchisees were up in arms. They were part of the lawsuits. Our customers had been walking away. We were declining on same store sales nearly on a double digit clip. And the government was after us as well. We were under DOJ and several state attorneys general's lawsuits and investigations. And I think we got to restate four or five years' worth of financials, and we hadn't quite started SOX even though it was supposed to have been implemented at that point.

So yeah, we had a lot of real challenges that were going on in the business at that point.

Mike Kearney: So I hear and I listen to all of that. Why would you take the job? What precipitated that?

Daryl Brewster: Yeah, in reflection you kind of do wonder why. I had the wonderful opportunity to run Nabisco and we had been bought and merged with Kraft and was a great company. But I really had a goal to be a CEO, chief executive officer, of a billion dollar publically traded company.

Mike Kearney: With an incredible brand.

Daryl Brewster: With an incredible brand. And in a place where I could commute from home, in this case from New Jersey down to North Carolina, and to be able to do that. That was really what drove me. I think I took the first interview because our daughter was going to school in North Carolina. So I thought at least I'll get to see her. Not a lot of interest.…

Mike Kearney: Whether or not she liked it or not.

Daryl Brewster: Exactly. But really got to know our chairman of the board, Jim Morgan, who's just a wonderful person. The challenge really kind of inspired me, really kind of got me excited. I had been in some wonderful situations, ran some great businesses that we had been able to improve and enhance their performance. But here was something that was truly in a mess. And the mess was…. By the time I got there things had deteriorated even further than we first talked, because the company was not current with its financials. So it was a lot of mystery and a lot of rocks that we would under turn and, at least for some months, there was nothing good under those rocks.

Mike Kearney: It's interesting. In preparation for this I did a little research on Krispy Kreme and I didn't know they went back all the way to the 1930s. So obviously not only an iconic brand in the US overall, but just even in the South.

Daryl Brewster: Yeah, it really was. Back in the 1930s, the rumor is it was won in a card game by Vernon Rudolph, who was the original founder, a guy who wouldn't even hold board meetings. The Krispy Kreme board is actually shaped like a doughnut. And if there was a discussion or argument, and the opening of that was a hole like a doughnut, he would just say, "OK, let's go to the middle." And then he would wrestle to get to the right answer.

As a former high school wrestler, I thought that was pretty cool. I'm not sure that would work in today's…

Mike Kearney: Did you take that into the board room?

Daryl Brewster: I think I probably could have in a number of instances.

Mike Kearney: So a lot obviously going on when you took over. You mentioned accounting issues. You mentioned lawsuits, a lot of things. So what were some of your initial priorities out of the chute?

Daryl Brewster: Yeah, if there was a risk that we identified, we had realized virtually every one of them, and each of those areas had really topped. There were really very few things going right other than perhaps the brand and great quality products, and a lot of people were still working hard. But we had hit every possible risk factor that was out there.

What we really set up with the organization was, we identified three overarching goals that we needed and then a six-point strategy to fix that. As you know, recently Krispy Kreme was bought by JAB. And I've heard from a bunch of the Krispy Kreme folks and people with nice thanks, and isn't it great the company survived this long, and I think they have great expectation what will happen now with JAB.

Virtually all those people still could recite the three S's and the Krispy strategy we had. So the S's were very simple. One, survival is the first thing we needed to do. Second, stability—get the processes, systems, structure in place so what we went through didn't happen again. And third was really building a sustainable growth plan for us. So those are really what we would talk about.

Then we underpinned that with six crystal-clear strategies, which we used the acronym K-R-I-S-P-Y with a "K"—had to spell a few words that way. That was there. I mean "K" was about "klean" up and "kash," spelled with a "K," of course. And how do we really clean up the mess that was there and generate the cash that we needed to survive? And that was something that became really part of everybody's role and job. The "R" was about running great doughnut shops. So while we were doing the financial piece, simultaneously we were still in business and we still had to run those great doughnut shops. That's how we were connecting with customers and consumers.

Mike Kearney: Yeah, that's one of the things I've seen is a challenge is, obviously when you're in the middle crisis, you're focusing on getting the business back on track. And sometimes people forget that you have customers to serve.

Daryl Brewster: Right. You see that all the time. While I had not had a lot of experience in companies in this much trouble, part of my sense was that we had to do this or otherwise we would just stay. We could clean up the financials. But if the business wasn't in good shape, you were not going to escape from the issues that we had.

Third, the "I" originally stood for innovation. I'd run Nabisco, and we had great success launching new products and new initiatives, but realized at Krispy Kreme that we had over 300 factories. So rolling out any innovation was incredibly complex, particularly with everything else going on in the organization. So we moved the focus of that, [it] had to start with "I," so we went to international.

International really, I think, was the turning point in our turnaround.

Mike Kearney: Was that a big area of focus before you came in from an international perspective?

Daryl Brewster: We had a handful of stores and actually we closed a bunch right when I got there in Canada. What international got us, though, was really three key things we really needed. First of all, we were not allowed to franchise in the US because we were not current with our financials. So we had no ability to grow in the US or to take stores that were underperforming and to be able to sell them to some new franchisee.

International, we were in virgin territory, so that opened up: first, we got cash up front and cash was number one. Goes back to number one. Second, we made it really clear that the people we're going to work with had to have already been in the quick service restaurant or fast food industry. We couldn't teach people. We had not had a great experience teaching people when we rolled out in the US when the company had gone out a few years earlier, but we needed operators who knew what they were doing. And they were great. That actually helped us out.

And third, it was an opportunity also for us to get the model right in a fresh area. Fixing something that you already have that's kind of broken is hard. People are used to doing it. Here was a chance to do it the right way out of the gate and learn from some of the mistakes in areas that we had.

Mike Kearney: That's fast. I mean I've spent a lot of time in innovation and what I've seen is a great model is going outside of the existing area of business, getting it right, and then importing the best practices. I'm guessing that's what you were doing.

Daryl Brewster: Exactly what we were doing. So international, I think, went from 10 percent of our shops to 5 percent and today is 75 or 80 percent.

Mike Kearney: Wow.

Daryl Brewster: So it really has been… it's a total franchise model. In fact, we even did it because we weren't, our team had so many issues, we transacted everything in US currency. We didn't want to get any currency variations. We'll just do it in dollars. That will be simplest for us because it would have been a little hard for us to kind of handle some of those even more complicated transactions. We'll do it in dollars. That's what we pay our employees in. That's what we do. And the "I" really was transformative for the organization.

Mike Kearney: So we've got kash, run the business, initially innovation, but now international.

Daryl Brewster: The "S" was about saving money everywhere. One of the great ways to generate cash fast is, how do we cut cost that we don't need? And some of that were some very tough calls we had to make on overhead and general administrative costs. But we really challenged the entire organization to find costs.

Mike Kearney: What was your experience with that? Did the employees rally around that?

Daryl Brewster: They did. One of my favorite plans within this was a program called SYS—save your salary. It got to the point really quickly what needed to happen. And one of my favorites was an administrative assistant who worked in our factory in North Carolina. She was responsible for paying the cleaning bills. We had three facilities in Winston-Salem. And she went on her own with a little bit of help from… she was sparked by some things we were doing on purchasing other items, and went to various cleaning offers and said we'll package all three of these together, which she did, and we saved her salary times two.

So it was just a brilliant story that we got to tell so many times about how people could really make a difference. The new cleaning guys were great. They did a much higher-quality job than the old guys, and we were able to take the best of those and really get some wonderful leverage. Really throughout the organization we found people really rallied up to kind of say they understood the need to survive and find ways that they could really make a personal difference in the business.

Mike Kearney: I love that because I think sometimes when you get in a situation like this people don't necessarily internalize it, like "I have got to be part of the solution." And what you did is you pushed this all the way down to the organization.

Daryl Brewster: Everyone was still blaming the prior management, which had created the issues and why that happened. People were telling these amazing stories. Well, that's nice, but we've got to move on. We've got to get this thing fixed. How can you really solve what those topics and issues are all about? And the team really rallied around that.

Mike Kearney: So the last two.

Daryl Brewster: Last two. We'd gotten to "P". And "P" was really to power the organization. So very consistent with what we just spoke about was that you had an opportunity here to do that. So we put in some basic systems and processes so we could get everybody rowing together rather than hitting each other over the head with the oars, which was what was happening. This was an organization that had gone through such change. Everybody was blaming the other guy. It was the other guy's fault. And we tried to move that forward and really laid out an organizational strategy and communication plan to get everybody in the same boat.

One of the first things we would do, in addition to our management sessions, about every quarter, everybody in the organization had to do quarterly priorities. They, through their manager, for the first several quarters had to send them to me. And I would go through, it'd be anybody in the management group. We had 150–200 people and go through everybody's individual priorities. Circle "this is critical" and then anything that was not so good I'd ask their manager, "What are they doing?"

So it was a great shot to see what people really focused on. Everybody had the Krispy Kreme overall… our three S's at the top of the page, they had the K-R-I-S-P-Y down the side, and then what could they do in each of those areas.

Mike Kearney: Well, it goes back to, this was not just about the executive team driving the change. This was about everybody.

Daryl Brewster: Yep, and every quarter we would have a celebration meeting or quarterly update, town hall meeting, some people call them. Sometimes they were celebrations, some consolation. And to get into that meeting, the ticket was to bring your quarterly priorities. So if you didn't have them, you didn't get in.

Now, it took a while to go through a couple hundred of these priorities over time, all done on one page. That was the model because we wanted to keep it relatively simple. But it was a great way to get clear, crystal clear organizational focus on that. At those quarterly sessions was a great chance for us to then talk about here's where we are, very open to us. And we would do that generally the day of our earnings release for various communications and FD reasons, talk about where we're going and re-lay out that vision. We're going to survive. We're going to stabilize this thing. We're going to build this sustainable growth plan. And then literally go through the K-R-I-S-P-Y in terms of the plans about where we stand and bring in various managers or people.

What was neat, there was a woman there, who I'd just heard from a couple weeks ago with a transaction, who had been with the company for 42 years. She said, "I've been here 42 years. You're the first CEO I've seen since our founder Vernon Rudolph. The others had never shown up." And she was in a pretty key job working in our factory. The others had never come there.

Mike Kearney: Must have made you feel really…

Daryl Brewster: It was great. It was such a great feeling that was there and, yeah, I actually know what's going on in the company. Otherwise I'm reading it in the newspaper and it's not always, I realize not exactly accurate. And I also know what I need to do. Then each time because people were going through a difficult time, we also didn't want this just to be all about the negative. We needed to find positives. And we had wonderful, in fact she was one of the people we would honor… anybody who was celebrating a major anniversary with the company, whether it was five, ten, twenty and then anybody over thirty we would just celebrate them every time. And one of our people then provide the music of that era. So literally the music that was on when she joined Krispy Kreme we played a couple of seconds of that. And it was a great way…

Mike Kearney: Do you remember her song?

Daryl Brewster: It was like some Rudy Vallee thing back in the day. It was a song from the '60s or so, so it was going back pretty far.

Mike Kearney: Well, we got to make sure this conversation gets to her.

Daryl Brewster: Yes. Definitely. So it was great. It was a great way to bring people and therefore… while we didn't want to go back through the issues of the past, we did go back to the essence, the DNA, the foundation of what had made this company a great company.

Mike Kearney: Because there's a lot to be proud of.

Daryl Brewster: So much to be proud of. We just had to get back to the original values. In fact, we did a whole program on values as part of our powering up the organization. We had a team set up the whole thing. Finally in our files we saw one that had been written by Vernon Rudolph in the 1930s.

Mike Kearney: The actual values.

Daryl Brewster: The actual values. Some of the words mean something a little bit different today. But we actually used those as our values.

Mike Kearney: So what was the "Y"? I love this K-R-I-S-P-Y because I actually now know your strategy.

Daryl Brewster: It was really clear cut. And the "Y," depending upon the audience was one of two things. It was either "Y not?" Which sometimes worked. But eventually we kind of got that to the "Y" is about "you." When it's about the organization, it's about you. So what are you going to do to really help drive one or more of those key strategies?

Mike Kearney: So, Daryl, consultants oftentimes are chastised for using a lot of jargon, complicated words, making things more complicated than they need to be. What I really like about your goals and your strategies are that I, literally after just talking to you for about 15 minutes, could recite exactly what your goals were. Where did that come from and was that important? Was there a lot of thought put into that? Because I think there could be no ambiguity in a turnaround situation, I would guess. You need to make sure everybody understands what they're doing. But where did that come from? Because you oftentimes don't see that.

Daryl Brewster: Yeah, it's a great question. It's one I can think throughout my career how we've done it. I had some of the best mentors in my career that I think anybody could have had. One was a guy named David Johnson who was Australian, former CEO of Campbell Soup Company worked there. Another Jim Kilts, CEO of Nabisco, went on to run Gillette, vice chairman at Proctor & Gamble. Another, Doug Conant, who's CEO of Campbell's Soup, later but at a different era, and also chairman of the board of Avon. And I continue to connect with these guys from time to time.

David had a wonderful way of really being able to…. Jim had a great way of taking the very complex and making it simple.

Mike Kearney: Which is an art.

Daryl Brewster: And then David had a way of taking the simple and making it memorable. I can still recall talks he gave at Campbell's Soup back in the '90s about his 20/20 plan. We need 20/20 vision—"20 percent," with his wonderful Australian accent, "20 percent return on equity, 20 percent earnings growth," crystal clear in terms of what we really needed to do.

And we found when he had the organization that sometimes at the managerial levels, when you're dealing with these high-priced consultants, that the words become bureaucratic words. They're gobbledygook. They're nice words. They're kind of good. But you've got to really champion a group, you've got to think of stuff that's memorable, that people can understand and relate to themselves. So kind of finding those takes some time, but if you can get them. And I come from a background of having run large marketing departments and general management, so it's a little bit like an ad campaign. So we spent enormous time on that, finding out what the right message is for our customers and consumers. We often need the exact same thing for our employees, particularly if they're going through a difficult challenge. So if we can find those, they can capture, talk about, it could help frame the conversation and frame the discussions as well.

Mike Kearney: It's interesting. One of the things that we oftentimes find is, you could put together the greatest strategy and it can make all the sense in the world. But if it's overly complicated and you can't get the thousands or hundreds of thousands of resources marching to it, you're not going to be successful. Like what I'm hearing you say is, you've got to keep it simple so that people understand what they need to do.

Daryl Brewster: Got to keep it simple. Each of those strategies had an underpinning of key elements and specific tactics and initiatives that we needed to pursue. But it helped provide an overarching framework for us to be able to run and address the business. And then from my perspective, there were very few who needed to do all those things, but we could now divide and conquer among our leadership team. They understood where other folks were up to, but they could take… we needed somebody who was really managing cash. That was a critical element and we'd have our weekly cash meetings and the rest.

Meanwhile it was important to know where that was. But a guy running doughnut shops needed to be out there with our franchisees, with our company stores on a regular basis and it's best that they weren't confused or complicated in some other areas. Our international team was most remarkable because they were critical on turnaround. It was two guys and they had had some great contacts previous in their career, and they just basically got on planes and checked in at our staff meetings every other one if they want. But here's what you've got to get done. They did a really remarkable job, Jeff Welch and his team.

Mike Kearney: So, Daryl, when you came in, I think the investor community looked very favorably at your announcement as a CEO. Can you talk about, just personally, what it was like to have such grand expectations? I mean obviously as you talked about big turnaround, this is your first CEO role, huge expectations. Any personal reflection?

Daryl Brewster: Well, it's probably good news and bad news on that whole thing, because one of the key things you want to do as a leader, if you can, is really to set expectations—low expectations—and exceed them. In this case, our expectations were already very, very low. And while I thought quite a bit about, and probably some reasonable reasons to lower them even further, we were at the edge. We were really at the edge. We were dealing with suppliers who were ready to put us on COD. If we went on COD, it was over. We were at the edge and sharks were swirling around the tank here. The blood was in the water on Krispy Kreme. There were structuring guys that were ready, the lawyers were lined up, 12 guys and a phone call, which we put the lawyers on budget. That was one of my “save money everywhere.” Saved us huge money. Wonderful letters I got from lawyers.

Mike Kearney: That’s what you got to share in these town halls.

Daryl Brewster: Exactly. And everybody loved and cheered it. We didn’t need 12 and some of the most expensive law firms in the world, whose fees were greater than what was at risk. We’ll let that be because we’d had some so-called restructuring guys in before us. Great if you were in bankruptcy. Fabulous in that, but we weren’t and didn’t need to. But had they been there longer, we would have gone there. But those were really challenging stuff that we had to really work with our organization to really help provide that better future of where we’re going. But also deal with the realities of where we were.

Mike Kearney: I know in any type of situation where you’re coming into a new organization, you go through the interview process. You do your due diligence. You probably have a pretty good understanding of what’s going on. But what we oftentimes hear is, “Wow, I was surprised because of X, Y, or Z.” What surprised you when you came in?

Daryl Brewster: Yeah, I think as I mentioned earlier virtually every rock we would turn there would be another surprise. A lot of the surprises were really interrelated, interconnected from that perspective. I had seen the financials that had been provided six months earlier and, between then and when I took over, the deterioration was stark. It was a significant deterioration in what had happened. But the company was not current with its financials so it wasn’t public information. Until we had our prior financials cleaned up, we could not provide our new financials. So we’re in that in-between zone. Which was somewhat helpful in a sense, even though we’d never missed a day of training on the New York Stock Exchange, because we were trying to sort out a lot of information and issues that had occurred years prior and clean that up. But each day we would find new things about what had happened, why it had happened, some of the questionable things that had been done previously. And the challenge was just kind of figure out what they are, let’s get them all down on a piece of paper, and then we can begin to address and deal with those things.

Mike Kearney: So how do you navigate through that? Because I can understand coming into a situation where there’s a lot of issues where you got your arms around it. What it sounds like is, every day you were finding something new. How did you get to truth, or how did you get your arms around everything that needed to be…?

Daryl Brewster: Yeah, we had a terrific team during this timeframe. And even though it’d gone through a lot of turnover, and we literally had two CFOS. We had one CFO who was looking backward to get all the information all current, which we had to do to be able to move forward. And another CFO who was more traditional CEO group. And we had a third guy who was one of the few who stayed on from the so-called restructuring guys, who was really our cash guy and really had CFO credentials. We actually needed all of them pretty heavily engaged to kind of keep things going at this juncture.

At the same time we're losing money, so it wasn't like we could bring a lot of high-priced consultants or anything. So we did have some consultants who were great, who created a more flexible model for us, more performance based. So as we got some benefits and savings we could then pass them on, which was good.

So two of the CFOs were there. The third guy we retained was extraordinarily helpful as well and he kind of was the everyday cash guy. One guy was looking backward and he ultimately become the CFO and just did a terrific job. And our third was our guy who was really looking outside and helping us manage kind of the investors group as well and how do we communicate to Wall Street, because we were a publically traded company.

Mike Kearney: So you mentioned many times you were obviously low on cash. You also mentioned that you had an incredible team. The question I would have for you is, you don't have a lot of money to spend, but it's really critical that you have the right team in place that understands your vision and strategy. How did you pull together a team that understood where you wanted to go? And there's a lot of different questions I could go from there, but…

Daryl Brewster: That's a great question. I think one of the major things that we did early on with this group, because they were all over and they were still kind of in the view of why'd they come, why didn't they sell their stock a few years ago, and all that. But we would do as part of our ongoing process, and we did it more frequently to begin with. But we would do a quarterly session with our group, which we do offsite. And we brought in an offsite facilitator, a guy who… we were ready to go and the guy had worked for me. He had been head of HR for a large company. The day of it he calls up and says, "I can't come." But I had a good friend in town. I said, "You've got to facilitate this thing."

We had a session and I did it before, something I picked up from Jim Kilts, still doing today with organizations, which is a really quick strategic planning session. We use it, we call it the STAR process: Strategic Thinking Action Results. And it was great because we basically spend the morning talking about where we are, what's working, what's not. We then talk a bit briefly about where we want to go in both financial and somewhat visionary terms. But early on it was all about the financial data—survival and those areas. And there would be a line of what the goals would be.

That's something that I would pretty well say, "Here's what we've got to get to, guys. We cannot continue to lose a couple million dollars a month. That's not going to happen with the level of debt we have. And if one vulnerable franchisee goes under, this is really going to be a problem."

So getting everybody aligned on what those goals are, some discussion, but that's one where I think the leader can really provide it. But then having the group around those strategies lay out their steps and plans about how they're going to do that.

Mike Kearney: You know what's important about this, and I've seen it done every different way…. But what it sounds like you did is, you brought your team together and, rather than doing this in a backroom or doing it in a bespoke manner, everybody had a say. So that they could contribute and then you walked away, I'm guessing with fairly…

Daryl Brewster: We would walk away with specific plans and that would be each individual's objectives for the new quarter, their priorities. And then their next job was to have that same session, however they did it, whether one-on-one or a group, with their team. So that it all really "water fell" to the whole organization. So everybody was really on the same page but could focus on what they could do as part of that.

Mike Kearney: So, Daryl, one of the things that we know is every organization at some point in time is going to go through a turnaround, a crisis, something that is just going to knock them on their butt. When you reflect on your time, what are the attributes of your people that were on your team that you think are important in a turnaround? Because I think to a certain degree, running a business day to day is very different than a tumultuous turnaround or crisis. When you think back, what would be the attributes of people who are good in crisis or turnaround?

Daryl Brewster: Yeah. I think there were a number, and I think the way we had the group focused helped. We had one guy, Jeff Welch, who really developed our whole international program and did really a tremendous job. Did that, connected, he was on his own for most of that time. He knew a lot more about franchising than I could ever learn. He had worked with some of the great companies. But his team just did it. Other than checking out their travel bills, because it was an expense, really did a remarkable job in doing that.

So one was, the people just took responsibility for their area to really own that and make a difference. I think a second was that there was a good sense of both reality of the situation, and we had a few people who were really on the negative side—and that was good. But we also needed some people who were good optimists. And I can remember at one point we had two members of our team who had gone through bankruptcies—and we never did go through one. But we were close. They were, this was like, "oh, it's going to be awful." I mean, it's like that. But we had an extraordinarily optimistic head of another function, and I literally moved his office in between them. And they would feed on each other. And every afternoon, because we'd be turning over some rock, there'd be some other new issue that would come up. And it was good to get those issues out. So that was really helpful. But it was unproductive just to labor and stew on them. Fine, that's an issue. What are we going to do?

He brought just a wonderful sense of optimism. Good ole got to get it done and let's figure this stuff out. So I think that was sort of another area, it was important to have the reality. It was important to have the optimism. Because I've seen other groups where everybody is really optimistic and they're forgetting about the basics. In fact, that's kind of what got the company in trouble. So everybody was so optimistic. It was a company that had 100 stores. And when the prior management team came in and built 300 stores in a three- or four-year time period, we built as many stores in a year as it had in decades. And did that without controls, with a model that was actually different than what had originally been executed, although some improvements but some misses, and then when things got wrong, refused to acknowledge anything wrong and just kept building. In fact, when it came to the numbers, even when the numbers were wrong, they just put ones in that they thought would look better. Which is what got us into much of the problem, which was…. When you get into those issues, deal with the reality with a sense of positivism. Don't cover them up. And that's really what cost us probably more than anything was the clients and issues were bad. Deal with them. But then the making up the numbers, which is why we had to restate our financials, was really the crippling factor.

Mike Kearney: So one of the things I've read a lot about is the whole low carb craze back in the day. Was that really a contributing factor to where Krispy Kreme was or not? Because I've heard different accounts of it.

Daryl Brewster: I think it didn't help. I had run Nabisco, so we knew what those issues were. And I remember reading a *Businessweek* article…. I had actually been brought back for turnaround at Nabisco a year and a half prior or so to that. And Oreo, which I had run Nabisco at one point, we were growing Oreo at double digit...

Mike Kearney: My kids love Oreo by the way, so thank you.

Daryl Brewster: It's a great product. Now we're at billion dollars of revenue. Milk's favorite cookie. And in a year I was going because I was gone, but the carb thing hit. Oreo got sued by people because it contains some trans-fatty acids, and the business literally went from growing double digit to declining double digit. I was brought back to… [I] was at Kraft and had taken over their Canada business and some Mexico and some global stuff. And the day I get back, here's a headline on Krispy Kreme in *Businessweek* called "the hottest brand in America" with the Krispy Kreme "Hot" sign. I'm like, you guys are telling me this carb thing is killing us and this brand is working well.

Now, Krispy Kreme may not have been doing quite as well as they said. That was part of what got them into difficulties. So it was an issue, but it wasn't ***e Kearney:*** It wasn't what it was made to sound like.

Daryl Brewster: No, it was a kind of easy thing to blame on the world. And just as at Nabisco, where despite that there was a tough year. But then we took action to fix it, where we launched 100 calorie-line products, where we refocused. And we had a much broader portfolio, so we could refocus on crackers like Triscuits and Wheat Thins. We came up with a lower carb Oreo for a short timeframe and things along those lines. So we did some things. We did not have as many tools at Krispy Kreme, as I mentioned earlier. With 300 factories, it was hard to roll out innovation. But we were able to communicate "only 180 calories."

We did also decide "we are what we are" and. They had spent a lot of time looking at, can we find that breakthrough, zero fat doughnut, and work may still go on. We said "we are what we are." The average Krispy Kreme consumer comes to Krispy Kreme only four or five times a year. So it wasn't like an everyday occurrence that people were going through. It was a treat and, at some level, you also felt it was an opportunity to kind of celebrate that treat. So a lot of the innovation that we did was, could we have a doughnut of the month? We had great success with doughnuts that would have a football shape for football season. Or a St. Patrick's shape for March. Really simple stuff that would maybe get people back in the store instead of four times a year, five times a year. What a difference that would make. That's where a lot of the focus was.

Mike Kearney: I think the Krispy Kreme example, everything you shared is… it was almost like you were in triage mode. But you've been in business for 30, 35 years. You worked with a lot of CEOs. Now I'm really interested in this notion of prevention versus cure, a comment that you made in advance of this podcast. And you were really kind of in the cure stage of Krispy Kreme. What are your thoughts around how risk can be potentially identified in advance of something going wrong like this? I come from a risk practice. This podcast is not about Deloitte. But I'm always interested in what organizations can do to get ahead of risk so that they can identify it, monitor it, and address it before it ultimately becomes a crisis.

Daryl Brewster: Yeah, I think it's a great question because I think risk is inherent in everything we do in business that we look at. It's interesting, and my sense is I think a lot of operators of organizations and businesses are probably much more comfortable on the equity side of the equation than they are on the debt side of the equation. So the equity side is, where are the opportunities? Where is the great growth, etc.?

The mirror side of that, though, are the things that can go wrong and can go awry. I don't think that companies… at Krispy Kreme we did it, but we did it after the horse was out of the barn, if you will. I think there's a real opportunity for companies to really identify what those risk areas are. And this is beyond section 1.1 in the 10K filings, which I think are done more for legal reasons perhaps than for fundamentally how you drive a business. But to look at what some of those areas would be. And I think, in particular, what are… sometimes like Krispy Kreme there are a lot of these are self-inflicted. But what are some of the trends that are happening in the world that we need to be ready for and look to address? And I think so often we're so focused in on the P&L and the balance sheet. By the way, not unimportant. But we kind of miss what some of those longer-term drivers may be if we're not on top of those.

I think another area that can be critical, and in my view it's what saved Krispy Kreme, is how you really do build a reputation. Forget about the financial issues, but a reputation with your customer and your community base.

I mentioned earlier and went through the litany of all the issues, the billions in dollars of lawsuits, the hundreds of millions of dollars of debt without any cash, and the tens of millions of dollars of risk. The end of my first day at Krispy Kreme, I went to our local shop.

Mike Kearney: That must have been a long day.

Daryl Brewster: It was a long day, yeah, to get a cup of coffee and an elderly woman came up. She was there with her husband. In her wonderful southern accent came up and just gave me a hug and said, "Thank you. Thank you for coming." And it was like wow. I mean it was like "oh, man" and then you look at the thousands of employees and franchisees. But the company had, and they deserve such great credit, built such a wonderful following. These great brands. People took enormous pride about what they were a part of at Krispy Kreme. And a few weeks later, Krispy Kreme was… I went to at a banker's convention. I was invited. These were small community bankers from the state of North Carolina and others. And it was like, why do you go there? And I said, we know we may need money at some point and better to have bankers before things go awry to have that conversation.

I'm kind of getting ready and coming out of the restroom. And we had had a program called "**Fun**draising"—F-U-N. Fundraising was a way you could buy Krispy Kreme doughnuts in bulk and then sell them to raise money for your group, your organization.

Mike Kearney: I think my daughter's cheer team still does that to this day.

Daryl Brewster: It's kind of like Girl Scout cookies, but it's a fresh product. So the organizer group will do it on Tuesday and by Friday you can do this. Whereas I'm still waiting for those Girl Scout cookies. You order them and they never seem like they show up because they come months later. So it's kind of an active, real-time way to raise money. So a team needs cheering outfits, we need $1,000, we can go raise that this weekend. Or we need band uniforms or the basketball team needs outfits, whatever those are… very local community.

We were raising at Krispy Kreme, and basically the program was very simple. You buy the doughnut at half the price. You sell it at full price. Krispy Kreme sort of breaks even and you keep the profits. Well, when we were losing money, of course, we would invest more into that than we made. In fact, that was probably, we were $30 to $40 million a year that [groups] were raising from Krispy Kreme… from selling Krispy Kreme doughnuts. Actually a couple of our board members rightfully so said, "Shut that down because any of those doughnuts that are sold that way we're not getting full price for."

Mike Kearney: But just think of the brand impact.

Daryl Brewster: Well, there's two things. Most of those were… people from rural areas outside the towns would come in. This would be a good chance for them to buy stuff. Second is the amount of great positives. So I'm at this banker's piece. And it's a couple of guys just talking about Krispy Kreme, all the problems they were going through. They didn't know who I was in the hall. And one said, "Yeah, I used to sell those Krispy Kreme doughnuts back when I was a kid."

So I started off saying, "How many guys know Krispy Kreme?" And this was a southern bankers group, so they all have their hands up. "How many people ever participated in our fundraising?"

Now I was from the North so I didn't know this program that well. And when I saw 90 percent of the hands go up, I realized—which was a great confidence builder—that whatever happened, Krispy Kreme would figure this out. Whether I was there or anything else, it was going to figure it out because it had built so much, as long as it didn't… it could screw up in the financials and shouldn't have done that. But as long as it didn't screw up that relationship, it was going to be fine. And we never had to go to those banks. In fact, a while later we would renegotiate all of our… when we had cash coming in and we were able to get our cash on hand equaled our debt within two years. It was a remarkable turnaround. So we never really needed it. But, we knew it was there because of that incredible thing.

So, while I think it's important to identify what a lot of those risks are and how you might offset those, it's also what are the things you are putting literally into your reputational bank account that you could call on if that happens. Because if you're running this thing at the total edge... And it would have been easy to call that program off. We didn't make any money on it. Probably some of those uses would have come back to us, but I don't think we would have had that same bank account. I think people were cheering for Krispy Kreme to survive. We know there's a lot of companies out there right now, the public I don't think would cheer if they found out they were in trouble. They'd cheer, but for other reasons.

Mike Kearney: It's amazing what a strong brand will do during a downturn. Now that you've had an opportunity to reflect, gosh, what has it been almost eight, nine years since you've left? What was your proudest accomplishment or accomplishments?

Daryl Brewster: I think it's thanks to the team's really hard work, all the effort, that we saved a great American brand. I don't think it would have… it could have happened with other people, but I think we did that. And I think that saved lots of jobs. I think it made lots of people smile because they get the good, warm, hot doughnut. I think it led to lots of wonderful conversations and laughter and all those things. And I think at the high level, the idea that we not only saved the company but put in the framework and the longer-term plan that the next round of management just took to yet another level. I thought it was something I could really do. And I think we did it while cleaning up a big mess. And I think we did it in the right way. We never missed a day of trading on the New York Stock Exchange. We were close. We did not go into bankruptcy although the first question at the annual meeting—we hadn't had one in several years—was, "When are we coming out of bankruptcy?"

We never went in. Because there was all the stuff that floats around business in these situations. So I'm really proud of how the team stepped up as a team, and took on some immense problems that weren't their doing, and led to some really remarkable results, and saved a business that continued to prosper beyond that.

Mike Kearney: Anything you'd do differently?

Daryl Brewster: I probably… in life, you don't really need to run into the helicopter blades too often. So part of me does wonder whether…. I'm glad I did it and I learned so much on it. But it was a great experience whether you do those pieces. I think it was probably, I think the other was, I did this job as a commuting CEO. We did that for family purposes. I had a daughter who was in school in North Carolina. I think that CEOs need to be there. And even though I did that, especially in this situation, and we were extraordinarily successful. We turned it all around. I think that being there and all that stuff, I think was key, it wasn't right for our family. So I think that was probably that sort of early area. It worked out well. Our family is good. The kids are healthy. They learned a lot. We all learned a lot through that whole experience. But I do think that there, because there….

Mike Kearney: Nothing like showing up all…

Daryl Brewster: Showing up all the time. And while we showed up every week and all that. It's hard. Not that a lot of people have done that successfully, but that's probably one thing that as you look back I might have done differently for the company. But for me this worked out very well. So, there's kind of mixed thoughts on that.

Mike Kearney: It's interesting because one of the things that bugs me most about business nowadays is everything is so virtual.

Daryl Brewster: I think the virtual world is great. I think it gives great power and independence. But I do think that's probably one thing looking back… that said, I don't know what decisions we might have made differently. Because sometimes it was just good to get out of Winston-Salem and not have to read the newspapers every day. But I think being there would have been… is probably the right thing in most instances.

Mike Kearney: Wow, what an incredible conversation about Daryl taking over Krispy Kreme during a very challenging time. We're going to continue the discussion in our next episode where we'll talk about Daryl's role in leading CECP, a purpose-driven organization focused on partnering with the largest companies in the world to drive social change.

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