

Rayel & Company's

Case Study #13



Our Favorite Donut Shop

In this case study, we'll show you how something as mundane as a donut shop can find new, innovative and creative ways to dominate.

Innovation is always the key to success for any small business. In this case study, we'll show you how something as mundane as a donut shop can find new, innovative and creative ways to inexpensively position themselves as a dominant force in their market.

Through innovation, it's possible for any small local business to compete and even beat its larger competition. We will use the following six areas to highlight how this can be done quickly and inexpensively: (1) Effective branding, (2) gathering customer contact information, (3) working the local area, (4) joint ventures, (5) working the database, and (6) creating something BIG.

Step one-involves branding.

Many business owners think this means using any methods possible to "get their name out there." That would be nice, but NO small business can afford to do that these days. In today's media saturated world, branding for a small business **MUST** revolve around the creating of "top of mind awareness."

In other words, you **MUST** brand your business locally, so that when any local prospect has a need for what you do, your business immediately springs to mind. I'm about to explain how to do that if you owned a donut shop. However, take this information and apply it to **YOUR** business. I guarantee you that with **VERY** minor shifts, everything I'm about to reveal can be used to position your business as the dominant force in your market.

Let me quickly overview the six steps I just highlighted. First, everything must be branded... from the decorations to the company van, including signage, logos and company colors. Then create a signature item for your business. Be the **"Home of the Whatever."**

If you run a donut shop, create a donut double the size of typical donuts. If you give haircuts, offer a five-minute head massage and dub it "the meltdown." Don't skimp on this step. Cheap looks cheap. Spending a little money here will be invaluable.

In step two - (the key to the whole program) - you must collect the contact information for every single customer who walks through your doors. To do this, create loyalty programs

as incentives. Consider incenting your employees so that they have a vested interest to make sure that no one leaves without filling out a customer contact card.

In step three, try the **5 x 5 x 50 plan**. Pick five local companies for five days and send them promotional materials for 50 weeks. Just give them whatever you sell - donuts, haircuts, sandwiches, whatever. Make sure you exchange the free vouchers you will provide to them for contact information.

In step four, create joint ventures with local companies. Write a "Joint Venture Getter" letter and ask if you could provide your product or service for free for the other company's customers. Even offer to create the marketing that links them to your product.

In step five, work the database consistently. Email, mail and text message your database perpetually. Make it fun. Send them games, offers, etc.

In step six, go BIG. Try something newsworthy to get the public's attention. You could openly declare war on your competition and print T-shirts and bumper stickers that deliver your message. You could hook up with a local charity and give away ALL proceeds for a certain day or days. Try to set a world record. Pull off an elaborate stunt. Just find a way to get prospect's attention.

If you follow these steps you will not need a large marketing budget to beat the sizable competition. Like David who beat Goliath with a single but deliberate blow, you too can knock out the competition.

The DONUT SHOP

A friend of mine who lives in Texas recently walked into a donut shop and was surprised to see that it was owned and operated by a Korean family. "Just opened?" he inquired as he approached the eager employee standing behind the counter. "Three weeks open now," came the broken-English reply. My friend was amazed that after being open only three weeks, this shop already had the look and feel of a crusty little donut shop that had been there 25 years.

It wasn't dirty -- but there was absolutely nothing remarkable in the entire place. The walls were all painted pale yellow, and on the left wall was the standard-issue donut shop drink cooler with sliding glass doors and an assortment of juices, milks and energy drinks. Just past the cooler was the huge Jesus picture -- the one that's always there in these kinds of shops, unless they have the more traditional Buddah-type statues. Just below that was the 17-year old CD boom box playing random light rock hits from the 80's.

The back wall featured a bulletin board where you could leave your business card, which caused my friend to think -- do you really want to hire an accountant, plumber, or personal trainer you found on the bulletin board at the donut shop? A half dozen of those flimsy little donut shop tables and chairs were in the middle of the shop for those who preferred to dine

on their donuts while reading the Korean newspaper that was conveniently available. The glass cases under the counter featured an assortment of nice looking donuts.

Five dollars a dozen was the asking price on the menu board above the clerk's head. It was the generic kind of sign with lines on it that you can stick letters on to form whatever words and prices you want. Fancy and cream-filled donuts would cost extra, but for regular old donuts, their price was a full dollar less than the Evil Empire (Krispy Kreme) was charging less than a mile down the road.

My friend bought his standard cache -- a dozen glazed and a dozen chocolate sprinkles plus 3 chocolate milks for his kiddos back home -- and the lady threw in a dozen donut holes for free -- a nice touch. He got out of there for just under fourteen bucks. Not too shabby.

As he drove home he couldn't help but think that this brave little startup was doomed to be crushed by the venerable Krispy Kreme - in fact, it was only a matter of time. But it didn't have to be this way! A savvy Korean shop familiar with basic marketing principles could take a chunk out of KK's hide if they would just employ a few simple strategies. Four strategies to be precise -- detailed here for your reading pleasure. Think of these strategies as the holographic Princess Leah that R2-D2 kept showing Luke in the original Star Wars. Here's the blueprint required to destroy the Death Star, and along with it... the Evil Empire.

First Episode: Harnessing the Power of Your Brand

Remember back in the 1970's when generic grocery items were all the rage? The packaging was stark white with black lettering revealing the contents of the package. There's a reason generic products went away.

You never see a restaurant simply called "**Restaurant**" or a hotel just called "**Hotel**." Yet thousands of donut shop owners across the country have dug deep into their collective creativity... and the best they could come up with for the name of their shops was "**DONUTS**."

How about coming up with an actual name for a donut shop for starters? And preferably, a name that either suggests an excellent tasting donut or has some sort of local flair. Here's a quick list I came up with:

- **Killer Donuts**
- **Best Darn Donut Shop**
- **Guaranteed GREAT Donuts**
- **Delightful Donuts**
- **Texas' Best Donuts**
- **Dragon Donuts (in honor of the local high school mascot)**
- **Southlake Pride Donuts (local community name)**

Yes, I know that the sign out front will cost a little more money than the plain vanilla **DONUTS** one, but remember, we're trying to take down Krispy Kreme! Spend a little extra dough on the sign. For sake of argument, let's call our Donut shop Texas' Best Donuts. This way we can cater to not just Southlake (and their Dragon constituency), but also neighboring Grapevine and the Mustang Faithful.

Since our theme is Texas, let's go ahead and decorate the place with some Texas flair. Decorating advice should be taken from Starbucks, not from the local snow cone shop. Let's get some bright colors that make the place look lively, energetic, and fun. Built in bar-type seating around part of the perimeter of the store would be a nice touch. Make the tables and chairs a bit more substantial. Whatever tables and chairs Starbucks has, buy those. And while you're at it, buy the Starbucks CD collection and play it over built-into-the-ceiling speakers. I know it's just a donut shop, but it's not illegal to give the place some ambiance.

Next, let's hire a graphic designer to create a Texas' Best Donuts logo and color scheme. This is important because we're going to use the logo and color scheme to actually start to brand our donut shop! Instead of using the generic white box to put the donuts in (or even worse, the generic white box with the word DONUTS and the address stamped on the front), let's instead get boxes printed with the name, logo, and slogan printed on them. Oh yes -- the slogan. How about "*Not Just The Best Donuts On Highway 26 -- The Best Donuts In Texas.*" Don't you like the not so-subtle dig on the neighboring giant!?

Next up for branding -- signature donuts. Because we're a local shop, we have lots of flexibility to do whatever we want. For starters, how about a donut that's roughly **TWICE** as big as normal donuts. Add to that red, white, and blue glaze (or sprinkles) on them in the pattern of the Texas flag? We could call it the "Texas Giant" and sell them by the half dozen instead of the dozen because they're so freaking big. Now there's a donut people would go out of their way to buy -- and remember.

Now create signature donuts for each of the local high schools. How about a 'Mighty Mustang' in red and blue... and a green and black 'Delectable Dragon' donut? They could come in "**Texas Giant**" size, regular size, and minis. People would go insane to buy these. School spirit and all that!

Then we could produce special occasion donuts -- Valentine's Day, Thanksgiving, St. Patrick's Day, you name it. Has anyone ever looked into making donuts in the shape of letters? How about this strategy... each day of the month they could create a donut with the letter that corresponds to that day of the month (A=1, B=2, etc.) and anyone who can prove their name starts with that letter can come in for a free letter donut that day only. It's worth a try. And don't tell me it's impossible to make a donut shaped like a letter.

So how much would all this branding cost? Certainly a bit more for the sign and furnishings. The logo wouldn't be too much. And signature donuts? Come on -- they don't cost anything extra. They're still just donuts! But now we have an identity that people would be interested in. People would remember these donuts -- and this donut shop. But we're just getting started.

EPISODE 2: THE MARKETING WARS

Now let's get business to come to us by leveraging other companies' customer bases. This is always a good idea for local businesses and businesses that have small budgets. Come to think of it, this is a great way to get business for any business on any budget.

Now that we've got some branding in place and we're open for business, it's time to get some customers. But in building our donut business for the long term, what's even more important than getting customers is building a database of customers that we can continue to market to for years to come.

This is the downfall of almost every local business on the planet -- they allow customers to haphazardly wander in and spend five or ten bucks... but never attempt to capture those customers' contact information so they can pro-actively woo them back later. They're perpetual "**one shot**" sellers.

For our plan to defeat Krispy Kreme to have half a prayer of working, we have to immediately begin gathering names, emails, and cell phone numbers (for text messaging) of as many people as possible -- customers and prospects alike.

Gathering Customer Contact Information: The first thing should be obvious, but no one does it. We're going to ask the walk-in customers to give us their contact information. Here's how this strategy works:

First, we'll print up some professional-looking cards with a space for each customer to write his name, address, cell phone number and email address. The cards, of course, are branded with our donut shop name, colors and logo, and the top of the card should read "**FREE DONUT HOLES FOR LIFE.**"

This is a little trick that plays on human nature. People love to get free stuff. So instead of just giving away the free dozen donut holes to anyone, let's **NOT** give them to anyone unless they fork over their contact information first? If we were going to give the darn donut holes away anyway, let's get something in return -- a veritable pot of gold in the form of a customer list. The card should also ask a few questions such as "**My home is approximately ____ miles from here,**" and "**My work is approximately ____ miles from here.**"

When a customer places their order, have the clerk hand them one of the cards to fill out. We don't want a stack of them sitting out so it looks like any schlep can fill it out as many times as they want. The cashier should pull it out from behind the counter.

The customer should be informed that they'll get a free dozen donut holes today for filling out the card, and a free dozen donut holes every time they place an order in the future. The clerk should also let the customer know that we'll be emailing and texting free donut offers periodically -- and the notices will only go out to people who fill out this card. We should offer a cash incentive to the clerks to make sure that they are proactively helping us build the most important asset our donut shop will own -- the customer list.

The next step is hopefully obvious too... we need to put the customers into a database so we can start to systematically contact them. Use a program like [SmartTracks](http://www.smarttracks.net) (www.smarttracks.net) that allows you to put new customers into an "**email track**" which means that each customer will get the same set of offers at the same intervals.

For instance, we want to send them an immediate email with an offer for something like "**buy one dozen get one dozen free**" as long as they return to the store within 7 days. This is VERY important because we want to get them back into the store as soon as possible to

begin to develop a buying habit. We'll give up a bit of gross profit now and again to get them into the store.

We won't always offer a free dozen with the purchase of one, but to get them back in quickly this is a no brainer. Then we would send out a specific chain of emails to be delivered at specific intervals to each new customer. We'll talk more about what to send the customers via text and email later.

The 5 x 5 x 50 Plan:

Let's look at some additional ways to get more new customers. One good thing about running a donut shop is that if our advertising budget is low, we can print our own currency in the form of donuts. The hard cost of creating a \$5.00 dozen of donuts is about a dollar (if you don't count sunk costs like the equipment itself and only count the cost of the donut ingredients). This means that instead of spending several hundred dollars on a goofy ad in the local paper that won't bring in nearly enough customers to pay for itself, we should invest our marketing dollars into free product distribution.

This is where the **5 x 5 x 50 plan** comes into place. We're going to give away two boxes of free donuts to 5 DIFFERENT COMPANIES a day, five days a week, for fifty weeks in a year. That's a grand total of 1,250 companies over one year. It's a very simple plan to execute -- all it requires are a few simple tools:

- **List of Companies:** Easily available from any list broker. Just ask for a list of all the companies/offices within a certain radius of the store -- say 2 miles. To last a year, we'll need a list of 1,250 companies. If there aren't that many, it doesn't matter -- we'll just go back 2 or 3 or 4 times to each office during the year.
- **Calendars:** Get a nice looking calendar printed up on 11 x 17 paper. We would want to spend a little money on graphic design to make it look nice with our company colors and logo, and we would want the calendar to be updated each month so it started with the current month. These can be printed from a digital printer for less than a dollar each.
- **Free Donut Holes For Life Cards:** The same cards we already talked about previously.
- **Cool Looking Van:** If we have any budget, let's get one of those cool-looking vans that have all the cool graphics on it. Naturally, the graphics would have our colors and logo and such on it. This van would be perfect to park outside our shop on the main road to attract attention when we weren't out delivering donuts.
- **The Donuts:** This is critical -- we want to make sure we're giving out our signature donuts. One of the boxes should be a plain dozen, and the other should contain 3 Texas Giants and 3 each of the Mighty Mustang and Delectable Dragon donuts.

To execute the plan, we would need to choose 25 companies a week to visit, preferably geographically close together to minimize travel time. Each morning at about 8:30 we send an employee to the five designated offices with the two boxes of donuts under one arm and a few calendars under the other and use this script:

"Good morning, my name is Tom from Texas' Best Donuts . . . we're right over on Highway 26... have you seen us there before? I'm here this morning on a goodwill mission bearing donuts for your office. Who would be the appropriate person for me to give our great tasting specialty donuts to?"

Once the proper person in the office was identified, the script would continue:

"With great pride I would like to present your office with these Texas' Best Donuts. As you can see (opening the dozen in the regular box) I have a dozen of our Texas' Best Glazed. I'm sure you'll find them to not only be delicious, but far more delicious than say... Krispy Kreme. And in this box, we have a sampling of our specialty donuts.

This is our Texas Giant -- no need to explain how it got its name. And here we have our Mighty Mustang and Delectable Dragon donuts -- all three are available daily in our shop on Highway 26. You will also be excited to know that we can make donuts to match any company's corporate colors -- what are your colors? (Prospect says the colors; make a note!). As I leave these donuts with you, I only ask two small favors.

First, I ask that you hang these calendars on your walls to remind you all year long of our delicious Texas Best Donuts. And by the way, we have hidden secret messages and symbols throughout the calendar. Every so often, we will text you a riddle to help you find that months hidden message. If you find it, you win an additional dozen donuts.

Second, I ask that you give me your business card so we can communicate our specials to you via email and text message. Anyone who gives me a card will receive free donut holes for life. If you don't have a card, you can simply fill this out."

Who's not going to want free donuts for crying out loud? We could go on to explain how we can deliver donuts to their office by simply going to our website and filling out an online order. We're not only building up a nice corporate prospect and customer list, we're also going to reap the rewards of reciprocity -- the immutable marketing principle that says when we give something to people (like free donuts) they're going to feel obligated to do something for us.

Lock In Long Term Sales: The problem with donuts is that people only buy them when they "feel like it" which isn't often enough. Instead of waiting for somebody to get the urge, why not put them on a subscription plan? We could do this with both individual customers and corporate customers. We could deliver two dozen donuts every other Saturday to a home or three dozen to an office every Tuesday morning. We could offer a discount on the subscription plan... or free delivery in our cool van. Think about it this way -- if we put effort into this program and ultimately had 500 dozen donuts sold every month before we ever started, how would that affect our planning and sales?

Joint Ventures: Here's a good idea for any local retail business -- and particularly our donut shop. Let's leverage the customers of other companies to push our donuts. For example, we could approach the local banks and offer to deliver 10 dozen donuts to them every Thursday morning so they could offer "FREE Donut Thursday" to their customers. Naturally, they'd want to promote this to their customers, which would require them to spend their time and money to promote our product. We'd want to provide some signage and maybe even some advertisements they could use -- let's make it as easy as possible. They'd pay us for the donuts (preferably retail... or at least our costs) and garner the goodwill of their customers -- who would in turn become familiar with our product. What a deal! In addition to banks, we could do this with the auto repair place, the car washes, oil

change places, salons, retail stores of all kinds, and basically anywhere that people have to wait or anywhere that has good foot traffic.

Consignments: Notice in the above scenarios we didn't list any places that sell food -- convenience stores, grocery stores, restaurants. That's because these places wouldn't want to give out free donuts since it would take away from the stuff they're already trying to sell. With these food-related businesses, we'd want to create a consignment deal where they actually **SELL** our product to their customers.

Naturally, we'll have to sell at wholesale so they can make a good profit on our goods, but what a great way to get our product in front of thousands of additional customers every day -- Krispy Kreme already does this -- we'd just need to go in with a better pitch about being a local company . . . and you can bet that our signature donuts would give us a leg up.

Mailings To Businesses: Get a list of certain types of people or professions. It could be accountants or lawyers or retail stores. We can rent a list of CPA's in our area for just a few cents per name. Then we'll write them a letter that goes something like this:

"Dear David,

I'm writing you this letter because you're a CPA.

My name is Bob Jones, owner of Texas' Best Donuts here in Grapevine. Every day for the rest of this month, I'm going to give away a dozen donuts to any CPA who brings this letter into my shop.

My reason for being nice to CPA's is actually pretty weird; ask me about it when you come in. Make sure you bring this letter with you.

I hope to see you soon!

Sincerely, Bob Jones, Owner"

It's a great letter that will get people into the shop. My reason for being so nice to CPA's could be anything. My accountant saved me a lot of money last year... my best friend from college is a CPA. It could be anything. Who cares about the reason, just get them in there!

After all the CPA's have taken me up on my offer, then I'd write the same letter to lawyers or executives or sales managers or anyone else I could think of that might like donuts. Then of course we get them to fill out our card so we can start to hit them with emails and text messages.

Email And Text Messages: Okay, so we've been gathering up all these contacts -- now what? Get them back into the store (or to order delivery... or request the subscription) by continually communicating with them! We want to give them all "donut brain" where they are constantly reminded of donuts. The idea is to keep them involved and entertained. A few examples of email/text messages might include:

- **Name Game:** Free donuts each day of the month for people with initials that match certain days. For instance, if your last name starts with A, you get a free donut on the 1st day of the month; B on the 2nd, etc.

- **Special Donuts:** For holidays, seasons, events, and so forth. For instance, we could make pink and red heart-shaped donuts for Valentine's Day and email a picture of one to our database.
- **Peripheral FREE:** Offer a free coffee or other drink when they come in and buy a certain amount of donuts.
- **Riddles & Puzzles:** Create riddles and offer free donuts for anyone who can solve them. You could also offer Sudokus, crosswords or other kinds of puzzles. This would get people engaged -- and give them a reward. You could post the riddles or puzzles on your website. Contests: Have people write "why I hate my boss" or "why I love my boss" or "why I love Grapevine" or anything else topical and relevant. I Spy: Remember that calendar you gave them? Put in a few hidden symbols or objects. Then text or email your database and ask them to find the object -- and they'll win a free prize.
- **Celebrity Gossip:** This will get the women involved big time -- have a celebrity quiz on your website that people can take to earn donut points.
- **Sports IQ:** The same thing for the sports fans out there. Remember, the key is to keep sending stuff to people that they'll actually take time to get involved with. Not just "hey, we're the donut shop bugging you again."

Okay, so now we have a plan to get new customers and build and nurture our database. Now it's time to go for the big blow to Krispy Kreme.

EPISODE 3: THE KILL SHOT

Please be advised that the following strategy is not for the faint-hearted. It would take tremendous audacity to even attempt it and unwavering courage to follow through, especially as the opposition toughens up and strikes back.

The Kill Shot strategy for our little donut shop is to declare war on Krispy Kreme. Not war as in "we're going to do our very best to get as many customers as we can" war. But war as in "we are going to openly declare to the world our official intention to take you down" war.

Sorry, Krispy Kreme. You're now in our crosshairs.

Some explanation might be in order. The real problem with donut shops in general is that nobody cares about them. Donuts are not a big enough part of our life to put much effort into having a favorite donut shop. They're kind of like air filters, fingernail clippers, and garden hoses— we need to buy them from time to time, but we don't really care which brand we get. We just buy whichever ones happen to be conveniently available when we discover we might need one. Same thing goes for donuts.

At least that was true until Krispy Kreme came along with its big fat brand and made the donut emotionally relevant. Krispy Kreme essentially did to donuts what Victoria's Secret did to bras... what Calloway did to golf clubs... and what Oprah did to talk show hosts. Now people rave about Krispy Kreme. They wait in line for Krispy Kreme. They don't go get donuts anymore. They go get Krispy Kremes.

Good thing too. Now that the donut has some emotional relevance attached to it, we can now tap into that emotion and use it to our advantage. If no one cared about donuts, then no one would pay any attention to our little war that we're about to wage. But when a 9 foot tall Goliath is walking around bullying the townsfolk, everyone will gather round to see what's going to happen when a puny little David starts talking smack about bringing the giant down. And guess who everyone roots for? That's right: the puny one.

So let's get this battle on. To fight it effectively, we have to enlist lots of troops—in this case, customers. If we've done our job right in branding and marketing, we should have a nicely appointed shop with good food and a good brand identity.

We should also have a good sized customer and prospect list built up. We absolutely cannot execute the Kill Shot strategy unless we have these things already in place. The opening salvo is launched via email to that existing database and should say something like this (remember, our fictitious little donut shop is called Texas Best Donuts, or TBD for short):

"Subject Line: Help Us Take Krispy Kreme DOWN

Dear Customer,

You are hereby enlisted to help us defeat Krispy Kreme once and for all. Having tasted this for yourself, you already know that our donuts are clearly superior in taste, size, customization, and value—and as a result it infuriates us when we hear people talking about how great Krispy Kreme is. No, they're not that great. Just because they have that big conveyor belt thing and frosting waterfall doesn't make their donuts better.

So we've decided to take Krispy Kreme down. And we need your help. We need you to pledge allegiance to Texas' Best Donuts. This will require you to sign a promise to only buy your donuts from TBD from now on—no exceptions. If you do this, you will be rewarded handsomely with the following benefits:

You will be issued a TBD Pledge Card for your wallet, which includes the following benefits:

- ***50 cents off every dozen donuts you ever buy from TBD***
- ***TWO Dozen free donut holes with every purchase... forever***
- ***TWO FREE coffee/hot chocolate coupons every month***
- ***Special "Free For All" offers periodically throughout the month***

- ***You will be issued a TBD "I'm Taking Krispy Kreme DOWN." t-shirt.***
- ***You will be issued a TBD "Krsipy Kreme Sucks" bumper sticker.***
- ***You will be issued a TBD "VOTE for Texas' Best Donuts over Krispy Kreme" yard sign***
- ***You will be issued a TBD "Texas' Best Donuts Eats Krispy Kreme's Lunch" mouse pad***

All of these items are waiting for you at our store right now. All you have to do is stop in at your convenience, sign the pledge and grab your stuff. We're looking forward to defeating Krispy Kreme together."

Sure some people might sign the pledge and then buy from Krispy Kreme anyway. But who cares? A large percentage of pledge signers will at least pause to think about where to buy donuts in the future—and the law of commitment and consistency states that many of them will honor their commitment since it was made publicly and they signed their name to it. Several of these customers will even become fanatical about their allegiance. If you have any doubts about this, watch "Food Wars" on the Food Channel.

Next, we will create signage for use in the store that supports and explains this program to those who are coming in for the first time. We'd need to switch all of our regular marketing activities to revolve around signing the pledge. Our list will begin to grow... first 2,000... then 5,000... then 10,000. Trust me, it will grow. We'd need to get a "**thermometer**" in the store that shows how many pledges we have vs. our goal.

Then here is the final blow. About two weeks after launching the email campaign (sending the Kill Shot message more than once), we'll need to contact the local news media about the story. To understand how to make this happen, you don't need to know squat about Public Relations, writing a press release, or any of that junk. All you need to know is that the press knows a good story when they see one, and this is a no-brainer good story for them to cover. We might even get CNN or Good Morning America to show up on our doorstep.

People will jump on the bandwagon and support the little guy. The news media will follow the story to see how it turns out. People will be polarized... they will have opinions. And through it all, we will be getting plenty of people to pledge. And come back. Again, and again.

And that is how a donut shop could take down the current dominant force in their market... in this case, Krispy Kreme. Now use your imagination and apply as many of these simple strategies to your business... and restore peace to your galaxy.

