

Krispy Kreme to open 1st shop in China

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U.S. doughnut maker Krispy Kreme plans to begin dipping into the massive Chinese-speaking market Tuesday by opening a shop in Hong Kong — China's richest city.

The 2,000-square foot shop tucked down a side street in the busy Causeway Bay shopping district marks Krispy Kreme's debut on Chinese soil and only its second foray into East Asia.

So far, Winston-Salem, N.C.-based Krispy Kreme Doughnuts Corp. has nine shops in South Korea, but it's expanding aggressively in other parts of the region.

Other than Hong Kong, the company has signed franchise deals with groups in Japan, the Philippines and Indonesia, which plan to open stores by the end of the year. There are already more than 20 stores in Sydney, Australia. It's also signed up a franchisee in the Middle East.

But perhaps one of the most salivating prospects for any multinational business is China's 1.3 billion potential customers, and East-meets-West Hong Kong, already a hub for both Chinese and Western gourmet cuisine, may be an ideal testing ground.

While fast-food chains like Louisville, Ky.-based Yum Brands Inc.'s KFC and Oak Brook, Ill.-based McDonald's Corp. are common in China, doughnuts are generally rare in the Chinese-speaking community, even in Westernized Hong Kong.

Fellow U.S. doughnut maker Dunkin' Brands Inc.'s Dunkin' Donuts' big foreign markets are the Philippines, Indonesia, South Korea, and Thailand. The Japanese doughnut chain Mister Donut, though, has a foothold in Taiwan.

Krispy Kreme Director of Marketing Jim Rogers believes the company enjoys one key advantage in the region — its open doughnut kitchen.

"I think that's very important, typically to the Asian cultures, to see food prepared in front of you and that's why we think it has such great success opportunities here and in other Asian markets," Rogers told The Associated Press.

The Chinese are known for their affinity for freshness. In Hong Kong, chicken and fish are killed on the spot in restaurants and wet markets. Local eateries display racks of barbecued pork and duck behind large windows in kitchens at the front of the restaurant.

There's also Krispy Kreme's trademark fresh glazed doughnut, which unlike the conventional dry doughnut, offers a sugary softness that resembles a Chinese red-bean filled dough-like dessert.

Brian Parfitt and his younger brother Wayne hold the Hong Kong franchise rights; Brian Parfitt says he's considering introducing local flavors, with one possibility being the popular Chinese red bean.

The Parfitt brothers have pulled out all stops in trying to generate buzz for the shop's Hong Kong debut, handing out free samples and hiring workers to carry a big countdown sign near the outlet.

Legislator Tommy Cheung, who represents the restaurant industry in Hong Kong's legislature, said locals are quick to embrace Western foods they once resisted.

"I don't dare to offer a negative prediction (for Krispy Kreme)," he said.

As for the next frontier, mainland China, Rogers is mum, saying the current focus is Hong Kong, where the franchise deal calls for the Parfitts to open about 20 shops in the next five years.

He confirmed that businessmen have approached Krispy Kreme about opening shops in China, but said the company isn't prepared to talk specifics.

"I think it's got a lot of potential as a market. We're not ready to really explore it, though, at this point," Rogers said.

Krispy Kreme's foreign expansion comes as the company tries to rebuild after a slew of corporate troubles. Once a hot stock, it reported its first-ever quarterly loss two years ago and has since suffered sagging sales, store closings, layoffs, lawsuits and an investigation by U.S. stock market regulators.

One lawsuit alleges that executives inflated wholesale sales figures.

Krispy Kreme, which fired its chief executive last year, reported a net loss of \$198 million for fiscal 2005, which ended Jan. 30, 2005, in a restatement issued in late April. It hasn't yet released its fiscal 2006 results and said in June it expects a loss for the first quarter of fiscal 2007.

On the Net:

Krispy Kreme: <http://www.krispykreme.com>

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