CASE STUDY: DUNKIN’ DONUTS

An example illustrates how private equity works in the real world. When Bain Capital, Thomas H. Lee Partners and the Carlyle Group bought Dunkin' Brands (Dunkin' Donuts and Baskin-Robbins ice cream shops) in 2006, they didn’t just take control of a popular breakfast and dessert business.

By buying the company from a larger and more diversified parent, they brought performance focus and attention to a relatively neglected asset in a larger family of companies.

Many private equity acquisitions involve carve-outs, aimed at maximizing the value of an overlooked asset. The private equity firms' strategy was to infuse talent and capital into the business to expand Dunkin' Donuts west of the Mississippi and diversify the brand beyond donuts by emphasizing coffee and other food products. They also sought to relocate many Baskin-Robbins stores to areas that were more likely to be visited by customers who wanted to buy ice cream.

The change in strategy required significant expenditures. If the company had still been part of a publicly-traded entity, a decline in short-term earnings would likely have hurt the stock price and exerted immediate pressure on the management team to reign costs back in. But under private equity ownership, investing in long-term growth was an attractive option. The private equity investment gave management a reprieve from the public obsession on quarterly earnings, which enabled it to pursue a complex value creation strategy for the business.

The company has made tremendous strides since the change in ownership. First, the private equity team changed the management team and imposed a service-oriented culture so customers could move through the line faster.

In addition to changing the team and culture, private equity managers expanded the number of stores in the United States and overseas, and changed the menu. Dunkin’ Donuts focused increasingly on beverages, which drives customer frequency. It also added healthier options such as egg-white breakfasts and extended the lunch menu to include lunch items. Finally, the new owners aggressively promoted these changes with a highly successful marketing campaign called "America Runs on Dunkin.'"

Since the change in ownership, Dunkin’ Brands has created thousands of new jobs as stores opened across the western United States and sales at the company’s ice cream shops rose. Its success has also created a new class of small business entrepreneurs who find owning multiple Dunkin’ Donut franchises a way to achieve personal financial security and success.

In 2007, the CEO of Dunkin’ Brands, Jon Luther, told the U.S. House of Representatives Financial Services Committee: “The benefits of our new ownership to our company have been enormous. Their financial expertise led to a groundbreaking securitization deal that resulted in very favorable financing at favorable interest rates. This has enabled us to make significant investments in our infrastructure and our growth initiatives...They have opened the door to opportunities that were previously beyond our reach.”
END NOTES


Value Added: Dunkin' brings private equity firms a sweet profit, Thomas Heath, August 18, 2012, The Washington Post

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