

AROUND THE CORNER TO AROUND THE WORLD

A Dozen Lessons I Learned Running Dunkin' Donuts



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Thirty-Five Year CEO of Dunkin' Donuts



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HALCYON DAYS



BACKGROUND

On a beautiful sunny June day in 1963, I had a conversation with my father, William Rosenberg, that would change the trajectory of my life. At the time I was a newly minted MBA, just twenty-five years old, barely two weeks postgraduation from Harvard Business School. On that life-changing day, my forty-seven-year old father asked me to become president of his business, Universal Food Systems, a daunting responsibility for more reasons than you might guess.

He sat me down in his office, slipping immediately into full sales mode. “Look,” he said, “I’ve observed you over the years, and whether it be school, camp, or the army, you’ve always come out on top—a leader—and I’m sure you can do this as well.”

Wonderful words to hear from my dad; still, I took a huge breath and asked for some time to think.

UNIVERSAL FOOD SYSTEMS

Universal Food Systems comprised a portfolio of eight small food service divisions¹ with annual revenues of \$6 million and earnings of \$93,000. Up until that point in my life, the only thing I had managed were a couple of donut shops—replacing managers for their summer vacations—and a short stint supervising a cafeteria. My father’s request was breathtaking and anxiety-producing, but not all that surprising. A few months previous, while still in business school, I had accompanied him to a meeting in New York City where he was trying to sell the business to a small private equity investor for \$1.5 million. He quickly passed on our offer. I had the distinct impression that this prospective New York buyer was only one of many who had already passed on the deal.

My father's one goal—the sale of the enterprise which would become Dunkin' Donuts—was to be a millionaire after taxes.

An eighth-grade dropout and product of the depression, my father had seen his father lose his small market in Boston to bankruptcy during the depression of the 1930s. These are trials I had not gone through, so I could only imagine how they must have scarred him as well as shaped every decision he made. I loved and respected my dad. I had sought his approval and approbation throughout my life.

From my earliest recollections he had shared his business experiences with me. I vividly recall the day in 1947—I was just nine years old—when he took me on my first airplane ride. It was a DC3 and we flew to Albany, New York, from Boston. His company was providing the industrial catering for the thousands of employees at the Watervliet Arsenal in Watervliet, New York. It seemed the employees were up in arms over the fact that he had raised the price of a cup of coffee from a nickel to a dime. My dad's mission was to try to explain his reasoning and calm them down in hopes of saving his largest and most important account.

I remember sitting in the rear of the union hall with hundreds of grumbling workers as my dad took the stage. A normal man would be a bit addled in this situation, but not my dad. He was fearless. He held forth for the better part of an hour as he explained that the price of coffee had escalated, and he believed they were better served by raising the price rather than reducing the quality. At the conclusion of the meeting, a vote was taken and a majority of the attendees were swayed, now in support of quality over price. That commitment to quality was, I believe, baked into the DNA of every business he started and lives on in the products Dunkin' Donuts and Baskin-Robbins serve to this very day.

My father was a self-made man with an eighth-grade education. Well-built and handsome, he stood a good six feet and weighed in at a solid 220 pounds. The kind of guy who walked into a room and dominated it; someone impossible to ignore. He was bigger than life. And he had the knack—an entrepreneurial zeal that defined and drove him. He was a world-class salesman who could sell ice to

Eskimos. But the more I observed him, the more I came to know that his strengths were tempered by weaknesses.

On the plus side, his timing was great. Returning servicemen and women entering the work force after World War II would put a tail wind in the food-away-from-home industry, which grew at a healthy clip for the next fifty years.

My dad also proved to be quite adaptable. When his initial industrial food service business began to falter because of changing competitive conditions, he searched and experimented with other business formats to keep his dream of business success alive. Unfortunately, he didn't know when to stop diversifying.

He had also fallen prey to some of the common mistakes many self-made people make, suffering from an almost unfillable need for recognition. This weakness was exacerbated not only by his upbringing, but—plain and simple—by his personality. His world view was formed by what I came to understand as a “scarcity mentality.” He saw life as: I win-you lose—or, just as starkly—you win-I lose. Nothing in between. If he didn't feel himself the winner, he was utterly miserable. There was no model on earth for him to see life as a win-win for all parties. Even worse, he believed he was infallible, that his success in one area or activity made him an expert and invincible in all others. Worst of all was his habit of taking every last dram of credit for what worked out well while syndicating the blame to others for what didn't. This was his *modus operandi*.

But after laboring for fifteen years with his business, my father was weary and wanted out. His oft-repeated refrain was that he started supporting his family when he was a boy and had already worked a lifetime. All the males in his family had died young, so he saw hard work as a sure road to an early death. Conversely, he viewed free time as fun and life-extending, so I knew he had that in mind when he made his offer to me.

At that time, in 1957, my parents had begun to spend their winters in Florida. The rest of the year, when my father did come to work in Boston, he had the habit of working out mornings at a downtown health club, arriving at the office by noon, then keeping his staff at work quite late into the evening. He had already turned

over the day-to-day management of Universal Food Systems to a former Montgomery Ward² executive, S. Joseph Loscocco.

Even before that fateful day when my father turned to me to take over day-to-day management, profits had stalled and he was stymied. He had grown his business from an industrial catering company with trucks serving factory workers—a business he knew well—to a highly diversified portfolio of food service businesses. Profits began to stagnate—averaging between \$96,000 and \$200,000 yearly. Larger food service competitors, like Canteen Corporation, were winning vending and cafeteria accounts in our region from his Industrial Cafeteria and Menu Mat Vending division.

Our small chain of fifteen hamburger stores, Howdy Beef n' Burger, was suffering at the hands of McDonald's. Our pancake houses had maxed out at just three—Providence, Rhode Island, Coral Gables, Florida, and Burlington, Vermont. Wiilies, Our New York-style deli in Providence, turned out to be a major cash burner. And the crown jewel of Universal Food Systems—Dunkin' Donuts? Yes, our hundred-store, mostly franchised, chain was in extremis as well.

Exacerbating the problem, Dunkin' management began to lose faith that a limited menu, based solely on coffee and donuts, was sufficient to profitably support a store, so they tinkered with the format and offerings. The last twenty-six stores they had opened varied in size from eighteen to ninety-six seats and served full breakfasts as well as an assortment of grilled foods, such as hot dogs and hamburgers. The operation was complicated and store profits suffered. Franchisees were complaining and failing. Many wanted to spend their contracted 2 percent advertising contractual commitment on their own stores in their own region rather than contribute to the general advertising fund—a potentially ruinous decision.

The ad fund was the essential resource allocated to building our brand and keeping the franchise healthy and expanding. Siphoning off those monies was, in effect, giving up control of where, when, and how the brand would be communicated to the consumer. Despite knowing better, management was beginning to accede to those franchisees' requests.

A FAMILY SPLIT

I think the most galling reason my healthy forty-seven-year old father turned to me to take the reins of his business was the publicity and recognition his former partner and brother-in-law, Harry Winokur, had been garnering as founder of my father's major competitor, Mister Donut. For my dad, this was the most frustrating and damaging set of events imaginable.

To truly understand how corrosive this crisis was for my father and his stalled business, I have to go back to the founding and early history of our company. Our original business, Industrial Luncheon Service, was founded in 1946 after my father had broken up with two partners in Bridgeport, Connecticut. The partnership lasted but six months.

My father returned to Boston, and with a few thousand dollars, opened an exact clone of the Bridgeport operation—same two-toned blue trucks, same name, same menu, and identical method of operation. Out of a small store front on the corner of Quincy Street and Columbia Road in Dorchester, my uncles, mother, and I rehabbed a commissary. My father, great salesman that he was, nailed the accounts, while my uncles ran the route trucks and served coffee, donuts, and sandwiches to office, construction, and factory workers at local businesses. My mother made sandwiches while I, at nine years old, washed out the coffee urns after school.

As the business grew, my father approached his brother-in-law, Harry Winokur, to become his partner. Harry was a CPA and my father admired his judgement, business know-how, honesty, and way with people. At the time, my father considered Harry his mentor and advisor.

Harry turned his accounting practice over to his partner, invested \$2,500 and became a full partner with my father in 1948. The business, then known as Industrial Luncheon Services, grew rapidly; by 1950, a hundred and fifty route trucks were servicing customers from six depots around New England. But the business began to falter as vending machines appeared on the scene, making lunch truck stops outside of a business less convenient.

The head baker in the commissary in Quincy told my father and uncle that the nearby donut shop—for which he had once worked—was making more money from their one retail store than from all twelve of their trucks delivering wholesale donuts throughout the Boston area. As my dad and uncle's own business was being weighed down by the rising costs of truck distribution, the overhead from a commissary and many far-flung truck depots, they realized a retail donut shop might be just the business diversification they needed.

They rented, for \$75 a month, a closed awning shop on the Southern Artery in Quincy, a road connecting Boston and Cape Cod. They opened a donut and coffee shop called Open Kettle in 1948. Disappointingly, the results for this little donut shop were no different than for the other fifteen hundred or so donut shops that operated throughout the state at that time: a modest sales take of \$1,500 per week—clearly not the panacea they had hoped for.

The Open Kettle had been in operation just a few months when it was rumored a nearby food service operator planned to add a competitive donut shop to his lot. The competitor was Maury Pearl, a former band leader who had made his musical mark with a hit song titled “The Sheik of Araby.” My father and uncle moved quickly to head Maury off at the pass—they hired his intended architect, Bernard Healy.

It was Healy who took one look at the windowless stucco shop and declared, “I have to tell you guys: this design isn't doing your operation any favors.” According to Healy, consumers were looking for something that would “knock their socks off”—a new California-style fish bowl building where consumers could see what was going on inside. For ideas, my dad turned to Providence, Rhode Island, equipment supplier Dave Friedman and his firm, Paramount Restaurant Supply. Dave designed a question mark-shaped counter that accommodated twenty stools. This layout served, for better or worse, as our service delivery system for the next thirty years. In addition, Healy remarked that the name “Open Kettle” simply didn't signify what was being offered to the consumer.

So, my dad, Healy, and Friedman had a brainstorming session.

Healy asked, “What do you do with a donut?” He soon volunteered, “You pluck a chicken and you dunk a donut.” My father said, “*That’s it!*”

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The finer points of dunking a donut were made famous by a noted comedian of the era, Red Skelton. Red was well known for creating a comedic skit demonstrating the etiquette and proper technique for dunking a donut in a cup of coffee. Soon after the skit aired, on Memorial Day weekend in 1950, a newly constructed Dunkin’ Donuts³ store opened on the Southern Artery that stopped Maury in his tracks. It generated not \$1,500 per week but a whopping \$5,000 per week, with coffee selling for a dime and donuts at fifty-five cents per dozen. Same location, same menu, same pricing, same management running the store; but a testimony to the importance of both presentation and serendipity—a revitalized store design. This novel donut-based skit by a wildly popular comedian transformed a middling me-too operation to a retail success and the foundation of an empire.

The success of the Quincy location spawned four additional openings around Boston over the next few years. But the success of the donut shops was overshadowed by a growing rift between the brother-in-law partners, who owned the business fifty-fifty.

It was 1951. I clearly recall nearly every family dinner at that time dominated by my father railing to us about his partner. He claimed that my Aunt Etta, Harry’s wife, was jealous of the fame and publicity my father was garnering. According to him, she felt my Uncle Harry wasn’t getting his due. *Coronet* magazine and the *Saturday Evening Post* had published stories about the “meals on wheels” operation, and my father’s up-from-the-bootstraps history figured prominently. But letters I have from Harry to my dad suggest his real concern was not public recognition but rather lack of inclusion on important business decisions and meetings; no mention was made about the occasional company write-ups.

My father increasingly saw Harry less and less as a well-educated mentor who added value to the enterprise and more and more as an unimaginative bean counter, a dull weight around his neck. He claimed Harry was holding him back from great success. In his letters, Harry would request that my father refrain from berating him in front of other members of the management team when Harry was not present. He asked that my father not make unilateral decisions but include him. The breakdown became so severe that the partners actually came to blows: my dad took a poke at Harry. Their fights were so frequent, loud, and disruptive that the two men eventually decided to move out of their offices in the commissary in Quincy to separate offices at 25 Huntington Avenue in downtown Boston.

At this point, Harry communicated to my father in the form of handwritten, certified letters sent from his personal residence rather than from his nearby office. Not surprisingly, they both retained lawyers and started negotiations as how to best dissolve the partnership; this continued for months. Just when they were about to throw the matter into court and ask a judge to decide the equities, they reached an agreement in which either party could exercise the option to buy the other out for the 1955 book value of the business, at the time \$350,000.

I'll never forget the moment my father was about to go to his attorney's office to make his election. I was seventeen, a senior in high school preparing to enroll at the School for Hotel and Restaurant Administration at Michigan State.⁴

I vividly remember that fateful day my dad had to decide if he would sell his 50 percent of the business to Harry or if he would buy it. It was Wednesday, May 18, 1955. The sun was shining brightly. It was one of those gorgeous midspring days that lifted your soul. My dad paced the living room as he tried to make up his mind.

Buying was the most natural choice for him. His ego and life were tied to his business, but buying meant having to borrow a lot of money. In fact, he'd have to put a second mortgage on our suburban home. It was a sobering moment for him, a child of the depression who had witnessed his own father fail in his Norfolk Street Market, unable to support the debt to finance it.

I strongly preferred for him to buy. Clearly, I was not an uninvolved, independent observer. But I also had a strong sense for what I thought was right for my father. He was still a young man at thirty-eight, and his identity was tied to his business. I reasoned he would be miserable if he were separated from the thing he had worked so hard to create.

I had yet to leave the house to drive to high school and was the last person to speak to him before his drive downtown. I shot my cuffs and went into hard selling mode. It seems the acorn doesn't fall far from the tree. As he prepared to leave, I could tell he was still uncertain. But he had a half hour car ride to his lawyer's office to make up his mind.

Here's what I said:

"Look Dad, I strongly urge you to buy! This business has been your crowning achievement. You would be heartsick if you turned it over to somebody else. You said yourself we could get time on the loans from the Hood Milk and the coffee company. I'm sure that if we had trouble our suppliers would give us more time! They don't want to be in the industrial catering business. And, once you're free from Harry, you could franchise the donut shops—a plan you've always said he held you back from."

He was noncommittal when he left the house. In the end, I have no idea what impact my speech had on him. But I know that my dad was always heavily influenced by the comments of the last person to talk to him. I only know that I left for school that day and later, at dinner, learned that he had bought rather than sold. I was delighted.

I also know he was confident that Harry didn't want to be saddled with the industrial catering and vending businesses and would probably elect to sell. So that's the way it went down. On May 18, 1955, my dad agreed to pay Harry \$350,000 for his half of the business: a large chunk in cash at the closing and the rest in annual installments. To accomplish this, he had to take out a second mortgage on our home and borrow money from many of the suppliers to our business. It was what happened over the next several years that took its toll on my father.

So what did Harry do? He took the money and started a competitive chain called Mister Donut.

The donut wars had begun.

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THE DONUT WARS

My father maintains that Harry held back some of the best prospective donut shop locations, knowing that the partnership was about to split. George Rittenberg, a Boston real estate lawyer and key location scout, went with Harry and quickly secured four of the best locations around Boston, opening some very high-volume shops in Revere, Medford, North Weymouth, and Westwood. Harry was soon nominated for and eventually awarded the prestigious Horatio Alger Award for his incredible rise from humble beginnings to successful fast food entrepreneur, much to my father's misery.

The first book ever written on franchising was *The Franchise Boom* by Harry Kursh, published by Prentice-Hall in 1962. This book was the sole and most important chronicle of this new and explosively growing business system called franchising.

The Franchise Boom opens with the Harry Winokur story and features it throughout. William Rosenberg is mentioned just once—and briefly—on page 150, and only as one of many who helped form the International Franchise Association. Mister Donut was prominently featured on a popular television program which awarded a free franchise to a couple before a national audience. It created a lot of buzz.

All of these developments called into question who the real driving force was behind the donut business at the time. To complicate matters, my mother, father, aunt, and uncle all traveled in the same social circle. All were privy to my father's tales of Harry's timidity

and, in comparison, his own superior accomplishments. But it seemed Joe Loscocco and company were impotent in the face of this daunting competition. Numbers didn't lie. Burdened by a difficult set of other portfolio businesses, it was starting to look like Dunkin' was about to be overtaken by Mister Donut. It was an excruciatingly painful time for my dad.

It was against this backdrop—a tangled knot of familial, financial, and logistical pitfalls—that I was being asked to assume responsibility and turn the ship around.

A BIG DECISION

The decision as to whether to assume responsibility for the company weighed heavily on me. In the six weeks leading up to that decision, I had been working alongside Loscocco, the executive vice president, familiarizing myself with the business and finding a position within the organization where I could fit and add value. In the process, I became familiar with the members of the management team and how they spent their time. My biggest lesson here was that although there was a wide range in talent, the senior team was reasonably competent at their operational duties.

Head of donut operations was Jack Delahunt, a former University of Massachusetts basketball player and former Howard Johnson's junior executive. Jack was cousin of and bore a strong family resemblance to former Massachusetts' congressman Bill Delahunt. Jack had an eye for talent and a good way with people.

Among Jack's team was a very talented regional manager, Ralph Gabellieri, who started in Providence as a donut baker and then store manager. At the time, in early 1963, the stores in Rhode Island had been suffering unsustainably low sales. When Ralph became regional supervisor, he developed and executed a strategy of delivering donuts at wholesale to cafeterias in local factories. In his determination to succeed, Ralph would drive from outlet to outlet—knocking on doors and windows—handing out the donuts and taking in the cash. Singlehandedly, Ralph brought all the stores to profitability and, in the process, became a legend throughout the company.

Sam Bader was a World War II veteran. Although he never spoke of it, Sam's face bore the scars of a terrible explosion. Sam previously worked at Endicott Johnson Shoe Company as an expert in real estate and later at Rayco, a well-known 1950s franchise chain that specialized in recovering auto convertible tops and seat covers. Sam was brought in to provide franchising and real estate experience. Quiet and tough, Sam was a Hungarian refugee who grew up on the streets of New York City. It was Sam, based on his previous franchise experience, who continually whispered in my ear to convert our franchise agreements from a rebate to a royalty. This proved to be a life-or-death issue for our business: had we not changed we would have been litigated out of existence. He didn't talk a lot, but when he did, his comments were worth hearing.

Norman Slater was a comptroller, CPA, master bridge player, and an attorney by training. Although generally the most abrasive of the group, he was by far, in my opinion, the most brilliant team member. He had a keen eye for trends and new marketing innovations. It was Norman who established our first West Coast regional office, and from his beat in California saw and reported on the benefits of a hot dog concept called Der Wienerschnitzel and their pioneering drive-through window service delivery system. This was in 1967, a full decade before it became a fast food standard. I attribute our being an early adopter of drive-throughs to Norman's advocacy. In the end, he did not want to be a comptroller. He longed for a line job, not a staff job. His personal objective was to make some good money and leave the company to become a college professor, which is exactly what he did.

Jack Alpert was the family and corporate lawyer. Although a sole practitioner and not an employee, Jack worked as an advisor, involved in many of the day-to-day activities of the company.

The weakest member of the team, as I saw it, was our head of marketing. He was more of an executor of other people's ideas rather than someone who contributed his own. I thought he lacked the imagination and creativity to head what should have primarily been considered a marketing company.

This team spent the majority of their time huddled in Loscoc-

co's office, Joe puffing endlessly on his pipe as they debated how to put out the daily fires—most of which had to do with store closings. Attention was drained away on tactics, not strategy. There was never a coherent conversation concerning strategy or any discussion at all about creating guidelines to help handle these recurring issues.

During my second year in business school, I was fortunate to take courses in retailing taught by the acknowledged dean of retailing, Walter Salmon. I also studied strategy at that time under Seymour Tilles, one of the founders of the Boston Consulting Group. Tilles's course provided the framework and language I needed to understand the process of strategy creation. The course in retailing gave me the opportunity to write required papers about the strategic issues facing Universal Food Systems. Both courses created a wonderful confluence of learning and real-world demands. Much to my disappointment, however, none of the issues explored in depth in my classroom were talked about or even touched upon in Loscocco's smoke-filled room. Loscocco's training had come from his experience at a large and soon-to-be-outmoded catalogue and department store chain, Montgomery Ward. As the days and weeks wore on, I was quickly coming to the conclusion that the problem with our company lay with leadership.

The only counsel I took in deciding whether to take my father's offer was from my wife, Lorna. She encouraged me to take the job and was sure I would become successful. If I had a concern about the downside, it was if I were to fail, *would I be employable?* I thought it more than possible that a future employer might not want a twenty-five-year old failed CEO. Wouldn't they worry that I might consider an entry-level job beneath me? And what would my choices be after that? I shuddered to think about it.

During those first few weeks, my father checked back with me to see how I was faring in coming to a decision. To try and seal the deal and have me finally assume responsibility for the business, he told me, "Look, you get Mother and me a million and a half dollars, and the business is yours." I never had him put this in writing; in fact, as the value of the business escalated, I didn't think it fair to do so,

and—had he done so—never would have held him to it. He later denied ever saying it.

Money had never been a consideration as to whether I took this job. My decision was based solely on my assessment of whether I could do the job better than Loscocco. When I was in college, and later, while a student in business school, I had worked summers relieving managers in both cafeterias and donut shops during their summer vacations. In exchange I received \$40 a week throughout the year and had the use of a company automobile. Out of the \$2,000 a year salary, I was responsible for my living expenses and tuition. I was married before I entered business school, and my wife Lorna worked as well. Although her salary helped defray our expenses, by the time I graduated I had to borrow an additional \$16,000 from the company to make ends meet. Even so, an increase in compensation was the furthest thing from my mind. I never negotiated repayment of my debt or salary with my father.

On July 15, 1963, eight weeks after graduation, I reached my final decision. I told my dad I'd take the job, and I became CEO of Universal Food Systems. My salary that first year was \$15,600. My father informed the senior management team of his decision to put me in charge, and as you might expect, they were in shocked disbelief.

"Are you crazy? He's only twenty-five years old!" was the collective response. Others said, "What will Loscocco think? What will he do?"

I have two recollections from that day. The first is a phone call from Jack Delahunt saying, "Kid, you'll be okay and I stand behind you." The other was a conversation I had with Joe Loscocco himself. I confess I was quite nervous but just as quickly calmed down when I saw that he seemed to be taking it all in stride. I told him I'd appreciated all that he had done to steward the company over the last several years, but I couldn't have an executive vice president between me and my management team. I gave him a choice. I offered to have him stay as administrative vice president without specifying the exact remit of his duties, or he could leave the company with severance. I suggested he take a couple of weeks off to think about it and get back to me.

I have no idea from where the intuition came for me to decide

early on to eliminate the buffer between me and my management team. Perhaps it came from a class in business school. As I look back, my repositioning of his role was essential if I were to lead that organization. In the end, Loscocco decided to leave. During that stressful time, I couldn't help thinking that part of what makes a true leader is the fact that he or she has followers. I was fortunate that the others stayed. If the other executives decided to follow suit, I could have been known for having the shortest tenure of any CEO in commercial history.

And so, I began. My desk wasn't actually a desk—it was the far end of a long conference table resting on the uneven floors of the second story of The Regent, a 1926 movie theater at 440 Hancock Street in North Quincy. Not only was this table the sole conference table in the company at the time, but I had to share it with every large group meeting the company held.

My father no longer had a need for his personal assistant and secretary, Lee Schultz. But she proved to be indispensable to me. In the early days her knowledge about the company proved invaluable, and for twenty-seven years she loyally helped me through countless ups and downs, days both disastrous and promising. At that moment, crises were flying at me left and right, all day long. Still, I faced the future with equal measures of trepidation, anticipation, excitement, and hope.

HITTING THE GROUND RUNNING

The first few days of my presidency in that summer of 1963 were a blur. During my first week on the job, two of our franchised Dunkin' Donut shops in northern New Jersey closed their doors forever. The news was a real downer around the office. These shops had enjoyed initial success, and their failure raised questions about the viability of the donut and coffee concept as a stand-alone business, its expansion to locations outside of New England, and ultimately the job security of those who earned their living from the business.

In that same first week, the franchise owner at our New Bedford location made an appointment with me. I was dumbfounded when he

handed over the keys to his newly opened food-donut shop; I simply had no idea as to what to do or say. I excused myself, left my office. As luck would have it, I bumped into Sam Bader in the hall, who suggested I try to convince this disgruntled franchisee to give the store a little more time before throwing in the towel. I did, and luckily he agreed. In time, we converted the store to a straight donut shop, and it exists to this day as one of the higher volume shops in the system.

During those early days, I was besieged with unpaid bills from contractors who slapped liens on the stores under construction for extras they claimed were due them. There were neither written documentation on change orders nor procedures as to how to handle them. I spent every Saturday, from early morning to late at night, sorting through their claims and settling them on the phone, one by one getting the liens lifted. Most often, the franchisees who sublet the locations from the company already had their rents fixed on the basis of preliminary costs; therefore the company was forced to “eat the extras.” It was a condition I hadn’t expected, and I was intent on finding a solution—quick.

Having given me his “office” in the conference room, my father had no place to sit at 440 Hancock Street, so he rarely made an appearance at headquarters. But he would call frequently to rail about Mister Donuts’ progress and check on what I was doing to turn the tide and perceptions. In 1963, the Dunkin’ Donuts store count stood at one hundred, and Mister Donuts count was eighty. I had little success convincing my father that the American public could care less about who was the first and biggest donut shop chain—they just wanted the best, most convenient product at the best price.

But I have to admit, I was caught up in the competition as well. Within a few months of my assuming the presidency of Universal Food Systems, my Uncle Harry promoted his son-in-law, David Slater, to CEO of Mister Donut. Three years my senior at twenty-eight, he had also been my junior counselor at summer camp when I was a kid. As a result, my father knew him well and respected him.

The donut wars had now officially advanced to a second generation and promised to be just as intense as the famed conflict between the Hatfields and the McCoy’s.⁵

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STRATEGY

Despite all the emergencies flying in daily over the transom, I did find time in those early days to meet with my team, and together we began to lay out a new and explicit strategy. Within the first few days, we agreed we would not open any more combination food-donut shops. These were complicated operations, more costly to build and less profitable to operate. In fact, they were undifferentiated from a common diner. On top of that, stores ranged from eighteen to ninety seats, further blurring our image. We agreed on a standard donut and coffee shop, featuring a twenty-seat counter in a question mark configuration. We standardized our menu to feature fifty-two varieties of donuts and a standard six-ounce cup of coffee served in a porcelain cup over the counter, and in a six-ounce to-go paper cup.

This decision was tested early on when Jack Delahunt came into my office. In those early days, we caught an important break. A new store was under construction in South Bend, Indiana. Since we had called for an immediate halt to construction of any additional food-donut shops, all those currently being built had to be converted to our now standard twenty-seat donut shop configuration, including South Bend. On that day, Delahunt explained that the prospective franchisee for South Bend had contracted for a food-donut shop and was insisting on that configuration. I asked him to offer the franchise owner his money back and said we would open the store as a company-owned location. The franchisee took his money back and—holding our breath—we went ahead with our twenty-seat store.

In an era where the average volume for our one hundred locations was around \$2,200 per week, South Bend came roaring out of

the gate at \$9,000 per week, and we made a \$9,000 profit as a company-owned store in the first month of operation. A store that promised to make \$100,000 in annual profits was a big deal to a company that had earned just \$200,000 from its entire operation in its best year. Needless to say, the senior management team breathed a huge sigh of relief, as did I.

We also made the difficult decision to not sell franchises in every market where we had an interested franchise buyer. We decided to restrict our expansion to specific markets designated for growth, where we could eventually afford supervision and advertise our brand.

We also agreed that we would deny any prospective franchise owners the option to change their agreements, specifically to spend their advertising money for their own stores. Rather, we agreed to build our advertising fund and launch a comprehensive campaign that would showcase our brand.

The benefit from that strategic decision quickly became evident when a second fortunate break came our way. I received a call from the marketing head of Mister Donut, Carl Zucker, who told me he was not getting along with David Slater and was looking to make a change. He asked if I was interested in talking. I certainly was, and soon. Shortly thereafter, Carl came to work for us and replaced our existing head of marketing.

Two things occurred in a matter of weeks. Mister Donut was no longer making huge public relations coups, possibly because Carl had left. More importantly, Carl quickly convinced me that adding a second coffee to-go size of ten ounces to complement our six-ounce cup would be a boon to business. Carl quickly designed a ten-ounce cup and created a new name for it. Our launch of Jumbo Java, our first new product, marked the first time we had some real news to advertise to our customers. Same-store sales (comparison of store sales this year to the same period the previous year) skyrocketed by over 12 percent during my first twelve months on the job. This same-store sales gain was *better than twice as much growth as any in our history*. This first campaign enabled us to prove dramatically

to our franchise owners the unquestionable benefits of combining our ad dollars in mass media campaigns rather than squandering it in local newspapers.

New-store growth was an additional strategic initiative. In the early days, most franchisees lacked sufficient credit and the brand strength to warrant landlords leasing directly to them. As a result, the company found it necessary to sign the lease and in turn sublet the location to the franchisee at a markup against a percentage of sales, whichever was the greater. Since most leases were a twenty-year commitment and represented how we were to distribute our brand, I felt it necessary to visit each new location before signing a lease or purchasing the land.

We were committing to an entirely new strategy. No additional pancake houses would be opened—neither would any other new business venture be launched. There would be no more food donut shops. It was Dunkin' Donuts—the newly defined Dunkin' Donuts—and nothing else. This was a declaration that would prove to shape all of our actions in fundamental ways. We were betting the ranch on just two prosaic products: a cup of coffee and a donut; not unlike the empires built on tomato ketchup, a chocolate bar, or some caramel-colored carbonated beverage in a bottle. We were putting a stake in the ground. We were committing to be the best in the world at delivering the world's most delicious coffee and donuts. As this new strategy began to unfold, there were some very promising signs. I was beginning to cement a following among senior management as well as franchisees. And most importantly, it all felt right to me, and I was falling in love with my job.

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THE STORY BEHIND DUNKIN' COFFEE

The delightful and stimulating effects of coffee were discovered about five hundred years ago in Yemen. It took about a hundred and fifty years for the product to make its way from the Arabian Peninsula to Europe, then in the next century to the rest of the world.

Coffee is one of, if not the most complicated and labor-intensive crops to get from farm to cup while maintaining quality. It starts as a berry from the *Coffea* plant. This five-layer cherry-like fruit is grown in high, mountainous regions by thousands of small farmers in seventy equatorial countries around the world. First the cherries are picked and dried, then the seed kernel (often called the bean) is separated from the fleshy part of the berry. This very laborious process is often done by hand.

Brazil grows about one-third of the now \$70 billion coffee market. Brazilian beans are brought to the port of Santos where they are painstakingly graded—manually—according to size and imperfections. These grades are denoted as Santos two through eight; two being the highest quality and eight the lowest. Beans are shipped to roasters around the world who then blend and roast the coffee.

From its inception, Dunkin' strove to offer the most delicious cup available anywhere. We started with a blend of the best Arabica beans from crops originally grown in the Arabian Peninsula, as opposed to Robusta beans which originated in sub-Saharan Africa. Our blend was composed of the highest quality Brazilian coffees combined with Columbian and Central American Milds: beans grown in the mountains of Guatemala, Honduras, and Nicaragua.

Since coffee is an agricultural product, dramatically affected by climactic conditions from year to year, adjustments in formula must be made from shipment to shipment to meet our end-product specifications. We sought a full-bodied coffee, mildly roasted, with a clean, sparkling finish.

We selected the best roasters from around the country, for the most part small firms that had consistently demonstrated exquisite taste and skill in delivering coffees that met our standards. To ensure freshness, we distributed our coffee to our stores weekly, in

bean form only. Once the beans arrived, we'd grind them to order in small batches in full view of the customer. We found the Bunn Coffee Machine was the best to brew coffee in small batches. We brewed no more than sixty ounces at a time. The rule was that brewed coffee never sat around for more than eighteen minutes from the time it was brewed until it was served. During the brewing process we made sure the coffee steeped at no more than 200 degrees, since coffee degrades if allowed to boil. In addition, our coffee weight to water was significantly higher than any of our competitors. For example, Tim Horton, a competitor from Canada, used pre-ground coffee and their ground weight per sixty-ounce pot was 25 percent less than ours. More ground coffee with the same amount of water per pot made for a more full-flavored, less bitter cup of coffee.

Since our commitment to quality culminated with the final beverage served, we were as fastidious about the cream we used as our brewing process. Dairies distinguish milk products by the degree of butterfat content. Heavy whipping cream, at 40 percent butterfat, is the richest, while half and half is 10–12 percent butterfat, all the way down to milk that may contain no butterfat at all.

We believed our coffee tasted and colored best with 18 percent light cream. The problem was, very few dairies had enough customers who used this custom cream to make it worth their while to produce it. In our opinion, there was nothing like the mouth feel and flavor a fresh, light cream brings to a cup of coffee. Our job was to find and convince local dairies in each market to make the cream for us. It was no easy task.

THE STORY BEHIND OUR DONUTS

The existence of fried dough products stretches back nearly 8,000 years to the invention of pottery, which enabled ground grain products to be fried in oil. Their popularity surged in the sixteenth century when the Dutch made *oliekoek* (oil cookies) to celebrate the Yule time. That tradition was carried to the new world when the Dutch founded New York. Myth has it the product was transformed

when in 1847 a Maine sea captain, Hansen Gregory, accidentally punched a hole in the fried dough to create the ring-shaped treat we now know as a donut. The product grew in popularity in America when the ladies of the Salvation Army served our World War I soldiers doughnuts as a treat; rumor has it that this is one of the reasons our soldiers were called “dough boys.”

In the twentieth century, the Leavitt family in New York helped popularize donuts by manufacturing donut mixes and donut machines. Their company was called Donut Corporation of America (DCA). They also opened a small chain of restaurants in New York City called The Mayflower Donut Shoppes. I vividly remember the motto on the wall of their shops: “As you go through life, brother, always make this your goal, ‘keep your eye upon the doughnut and not upon the hole.’”

The Leavitts also invented a small frying machine called the Robot Turner which automatically dispensed the raw dough product into a canal of frying oil, automatically flipping it at the right time. A customer could enjoy a hot donut on the spot. These Robot doughnut machines were a big hit at fairs, carnivals, and festivals.

If delivering a quality cup of coffee requires the most labor-intensive care from crop to cup in the beverage category, the same could be said about delivering high quality hand-cut donuts in the bakery category. We lavished the same kind of attention and love on the quality of our donuts as we did on our coffee.

There were four types of donut mixes we used to make the infinite varieties we sold. The first, and by far the most popular, were the donuts leavened by yeast. Yeast donuts were the base for all the honey-dipped rings we sold, as well as the shells, which contained all the yummy real fruit fillings, from jelly (which in our case was a combination of apple and raspberry fruit) to blueberry and lemon.

Yeast-leavened donuts were particularly challenging and time-consuming to produce. The process began with the mixing. In order to ensure the yeast was released properly, exact dough temperatures were crucial.

The yeast donuts were made in twenty-five to fifty-pound batches. They were mixed for twenty minutes, allowed twenty minutes to rise,

then separated into loaves on a large hardwood table covered in canvas. The loaves were allowed to rest another few minutes before cutting. With the help of a little dusting flour to prevent the dough from sticking to either the rolling pin or the canvas, each loaf would be rolled out flat, then “shrunk” to relax the dough. Bakers used a round cutter to cut ring donuts, careful to cut close so as not to leave too much scrap. These rings were either honey dipped or frosted, and were known as “first cuts,” the most tender, since the dough was not yet reworked with minimal dusting flour to toughen it.

To see a skilled donut baker cut a loaf of rings was a sight to behold. He’d cut with one hand, and as the ring donuts popped up, impale them on the fingers of his other hand to be laid on a screen for proofing and ultimately frying.

The scrap would be rolled and loafed yet again, the loafed dough allowed to rest for a few minutes before being rolled out and cut into shells. Shells are the round donuts, looking like fluffy little pillows, filled with all those amazing real fruit or Bavarian Krème fillings. These shells are known in the trade as “second cuts.” Loafing would take place yet again. These “third cuts” would be used for coffee rolls or tarts, or as we called them: “fancies.”

The next step in the process was equally critical. All yeast donuts are allowed to “proof” before frying. Proofing is the process where temperature and humidity are controlled to allow the dough to rise before frying. Since atmospheric conditions are always changing, this step required a skilled baker to adjust the humidity and temperature in the “proof box” to ensure the product was neither over- nor under-proofed.

Finally, the donuts were neatly placed on their screens, ready for frying, an equally challenging process. The three-foot mesh screens were lowered in pure vegetable shortening at 375 degrees, until the donuts floated free of the screen. After one minute of frying, the baker would use a pair of chopsticks to quickly turn the donut to its other side—careful not to stick the chopstick into the donut, allowing shortening to rush in and ruin the end product.

Finally, the product was ready for finishing. The rings were placed, hot out of the fryolator, on long sticks to be rolled into a

large mixing bowl of honey dip, or to cool a bit before being frosted. The shells were allowed to cool, then filled by hand pumps with three-quarters of an ounce of filling.

A yeast mix donut could—from start to finish—take four hours, while a cake mix yielding plain cake rings and crullers took half an hour. While the plain and chocolate cake mixes didn't need the same fermentation and proofing time, a great deal of care and skill was needed to create a stellar treat.

Cake donuts used softer wheat (less gluten than the hard wheat used in yeast donuts.) Baking soda replaced yeast for the leavening process. Dough temperatures were equally critical. In the early years, we were so concerned with keeping the cake dough tender we mixed only by hand rather than in the large Hobart mixers used for yeast products. A dash of nutmeg was added to plain cake mixes in our New England shops, just vanilla for the rest of the country. Cake donuts fry up with a delightful crunchy exterior and a tender, cakey center.

Rounding out the basic mixes was a French cruller mix. French crullers are basically a fried popover, meaning they have a high egg content. The mix was fed into a special machine which sat over the fryolator. The baker would crank out the spiral shaped donuts which were either honey dipped or frosted, and out of this world good.

By this point I think you've got a sense of the physicality and skill it took to make high quality donuts. If a customer had the patience and time to watch an eight-hour production shift, I suspect it might have looked like an intricate and deftly choreographed dance: the dance of the donuts.

ORGANIZATION

The senior management team began to consider another idea I'd had in graduate school. Since we were now going to restrict growth to specific, media-defined marketing areas around the country, we thought it might make more sense to decentralize the organization. Our thinking was that rather than have all the talent at headquarters at 440 Hancock Street, we could keep the New England Zone

there but also open an office in metro New York City for stores in the mid-Atlantic region, Chicago for the Midwest markets, and an office in the west for stores in that region as well. Each office would be headed by a vice president responsible for real estate acquisition, franchising, and ongoing operations, while the staff functions of marketing, finance, legal, and human resources would remain centralized at headquarters. Our belief was that we could not only grow faster but enjoy stronger ongoing operational support by keeping our senior people closer to the action.

Norman Slater, our CFO, had longed for a line job and was the first to volunteer to pioneer this organizational format. Norman opened our western region office in Portland, Oregon. Sam Bader agreed to move back to New Jersey and open an office in Teaneck to oversee growth in the Mid-Atlantic States. In New England, Jack Delahunt manned operations. For Chicago and the Midwest, I hired Sylvan Spira, an old franchising hand. For decades, Sylvan had been part of the senior management team at Tastee Freez, which was headquartered in Chicago.

To replace Norman as CFO, I tried to hire Bill Beebe, one of my classmates at business school. As married students, Bill and I would drive back and forth to school together from our off-campus apartments each day. We became great friends. Bill was at Goldman Sachs in New York City where he worked in their corporate finance department, a job he had taken after graduation. It seemed impossible to lure him away to the less glamorous world of a donut and coffee company in Quincy Massachusetts. So I turned to my cousin, Leonard Swartz.

Nine months my senior, Lenny was a CPA for Arthur Young in Boston. On weekends when we were twelve or thirteen years old, our job was to climb into and clean the fifty-gallon coffee makers at our main commissary for the industrial catering company. As a teenager, I worked successive summers first in the central kitchen, then the bakery, while Lenny served as the porter for the first Dunkin' store on the Southern Artery in Quincy. In 1964, Lenny joined the company as CFO. He played the key role in securing financing with Commercial Investment Trust for our prefabricated building pro-

gram. A year later, when I was finally able to convince Beebe to leave Goldman and take the CFO job, Lenny moved to Teaneck to assume operational responsibility for the Mid-Atlantic stores, while Sam Bader took on real estate and franchising.

Sam Bader had strongly suggested I meet a young entrepreneur named Frank Tumminello. At twenty-seven, Frank had already built and sold over forty-five coffee and muffin shops in greater New York City, all walk-in locations. Frank's modus operandi was to build a store, operate it for six months, then sell it for a capital gain. Because of the recurring nature of these transactions, Frank's lawyers told him the government would likely disallow this favorable capital gain tax treatment in the future, which was one reason I think Frank was open to talk employment with Dunkin'. Also, up to that point, we had never opened an urban location.

Frank joined the company and taught us his methodology for in-city location selection, working with other vice presidents to open high-volume city locations around the country. This enhanced our ability to penetrate markets as well as build distribution and brand awareness. When Sylvan Spira didn't work out in Chicago, Frank moved his family there and assumed operational responsibility for the Midwest region. Frank's stay with the company was only about three years, but we have remained close friends. He was a constant source of ideas, suggestions, and insights as to changes in the industry and their implications for Dunkin' Donuts.

Carl Zucker possessed an entrepreneurial gene to match his marketing one, and he petitioned me to support his decision to move to Houston and buy the franchise rights for the entire state of Texas. We had no stores in Texas and no plans for any. I acceded to his request, and as a result I hired Irv Eisen, a former ad executive and senior marketing executive for Pine-Sol as a replacement for Zucker as head of marketing.

One of my major organizational dilemmas at the time was the lack of procedures in our building process, which was the reason for my Saturday soirees spent sorting through extra bills and negotiating settlements by phone with contractors. One obvious solution to this problem was to replace Al Christoffers who headed up construc-

tion. Christoffers came from a background of building metal portable diners, and he would constantly pitch me about what a boon to our development program such a prefab building would be.

Donut shop buildings could be financed in one of four ways. The first was for the company to buy and mortgage the land, then build according to our specs. This method required a lot of cash, and with our weak balance sheet, we could only build a few new stores a year. The second was to either have the landlord mortgage his land or find an investor to buy it and then mortgage the land to build the building. This was called a “build to suit” and was the primary way in which we grew. The third alternative was to lease a piece of land and ask the landlord to “subordinate” his interest to allow us to use his land to obtain a mortgage and build the building. Rarely if ever was a landlord willing to subordinate his land for someone else’s building. The fourth and final way was to take a straight land lease from a third-party landlord and build the building with company cash. Again, this was very capital intensive, therefore a real growth inhibitor.

A prefabricated building was one notion where we could obtain land leases and—if we were skillful enough—convince a finance company to treat the building as something portable, like equipment, so we could obtain financing. This would allow us to move faster and—because it didn’t require the landlord to mortgage his property—would allow us to lease the best locations in a community. The promise of faster and better growth prompted me to help finance Christoffers’ plan to start a prefab building program in a factory he located in Elizabeth, New Jersey. He called his venture Trans Steel. His vision was to build small, portable buildings for restaurant chains such as Dunkin’ Donuts. We agreed to buy his first round of production. I also quickly replaced him as head of design and architecture with a trained and licensed architect, who developed processes which straightened out the extras and liens. These new procedures finally took me off the rack and freed my Saturdays to be in the field looking at new locations and existing operations.

Another important job opening came in 1965 when our head of human resources resigned to run for governor of Massachusetts. I

turned to Bill Beebe, by then CFO, and asked if he could recommend a replacement. That was when I learned about Tom Schwarz. Bill said Tom was one of the smartest people he knew. Currently in the corporate finance department at Goldman Sachs, Tom expressed a lot of interest, going so far as to say he might be open to the idea of working not just on transitory deals but on building a company over time. His concern with the Goldman job—and its attendant time-pressured environment—was that it would rob him of the chance to properly parent his growing family of three children.

My conversations with Tom went on for a few months. I liked him immediately and neither of us was put off by the notion that he had no prior human resources experience. But it took a bit of selling to get Tom to leave the renowned banking firm of Goldman in New York City to head up personnel development for a relatively unknown company in Boston. Eventually Tom came around, and he and his wife, Ann, and family moved to Boston at the beginning of 1966.

Finally, I felt I had an organizational format and the personnel in place to execute the strategy we as senior managers had agreed upon. We had four regional offices: Boston, Northern New Jersey, Chicago, and Portland, Oregon. Regional vice presidents could now focus on building the brand in the few key cities in their purview. Our operation was especially strong at headquarters: with Beebe in charge of finance, Schwarz at personnel, and Eisen heading up marketing, I felt our future was exceedingly bright and promising.

COMMUNICATION

Early on in my days as CEO, we ran some ads with varying success. We really began to build a campaign and brand recognition when Irv Eisen came on board. Irv switched the Boston agency that had handled our account to a New York firm called Daniel and Charles. Their entire team grilled Irv and me on the nature of our business and the important issues we faced. They quickly came to understand that we were concerned with developing consistent product quality and high operating standards throughout the system.

In restaurants, there are basically six meal “occasions” throughout the day: breakfast, morning coffee break, lunch, afternoon snack break, dinner, and late night. In the early '60s, lunch and dinner accounted for more than 70 percent of sales away from home, snacks about 12 percent, breakfast approximately 8 percent, and off hours 10 percent. Since Dunkin' Donuts competed as an eat-in option during the breakfast and snack and evening periods only, we had to rely on the sale of donuts for take home to achieve sufficient sales volume to make our concept work. This plan was in stark contrast with concepts like McDonald's, which had offerings in 100 percent of the meal occasions.

To ensure freshness at that time, ideally all the donuts were made throughout the day. Generally speaking, product purchased for take home at night—one of the heavy donut-buying periods—would be consumed the next morning for breakfast. Our standards called for all our baked goods to be sold no more than four hours from production, ideally to be consumed no later than breakfast the next morning. The heaviest production period for donuts was the night shift, which ran from 11:00 p.m. to 7:00 a.m.—which made sense.

A good donut maker could cut and finish three hundred dozen donuts in an eight-hour shift. As you might imagine, these donut makers were a prized and essential part of the shop operations. I fondly remember a visit from Ellie Leary, one of our opening crew personnel, when I was running a few shops in Hartford, Connecticut, after hotel school. She told me a story that sticks with me to this day and underscores how precious these donut makers were. Norman Revard, a legendary donut maker, was not a feast for the eyes—on the unkempt side, never clean shaven, with only one tooth and maybe a hundred pounds soaking wet—but when that man showed up for his production shift at eleven in the evening on the dot, Ellie would say that, to her, Norman Revard looked just like Cary Grant. If he didn't show up, and there were times when these guys simply didn't, it was up to the store manager—Ellie—to stay up all night doing his job, quite often staying right through the day for her shift as well. There were quite a number of times I had to pick up the slack.

But it was the second shift that had become the quality problem.

This was the afternoon shift, generally manned by the franchise owner or store manager. I had found that there was little or no donut production in that shift—since the staff tended to rely on the evening production to carry the shop throughout the day. Consequently, baked goods turned stale—clearly a violation of our four-hour rule—and sales during the evening were slipping. To solve that, the decision was made to cut back from three hundred to two hundred dozen donuts during night production, while making one hundred dozen in the afternoon to ensure freshness and try to build back our evening business.

To support this change, Daniel and Charles developed our first television advertising campaign in 1965 called “The Pledge,” featuring actual franchise owners from all over the country. They appeared in this iconic thirty-second spot dressed in their white uniforms and high toque hats holding a cake donut in their right hand as they pledged to make donuts fresh every four hours, coffee fresh every eighteen minutes, and that their “cream would never be milk.” The production values of the commercial were superb. We spent a total of \$250,000 on the campaign, but it was effective in changing store behavior, raising freshness standards and sales in the process. This fondly remembered commercial resonated for years with franchise owners and consumers alike.

To achieve franchise owner support, Irv and I traveled all over the United States meeting with franchise owners in small groups in local hotels, sharing our findings, and urging them to correct the production and quality deficiencies. We also used this opportunity to share our values and vision for the business. It was an excellent opportunity to hear their side of things and develop personal relationships.

The ability to spend time with both our franchise owners and members of our field staff underscored for me the benefits of face-to-face time. I also gained an understanding of the energy and persistence it takes to sell in a strategy or new processes. Remember, these were the days before FaceTime and linked in live conferences. Training videos and newsletters were sometimes necessary but much less useful.

CRISIS MANAGEMENT

During those early years there were several critical decisions I was called upon to make. To some, I responded wisely and—I think—correctly. In others, I made the wrong call. Hindsight is certainly 20/20, perhaps especially in the world of business.

The most crucial determination had to be how we made our money as a franchisor. When the business was launched, we profited by making a rebate from suppliers on all the goods that were purchased by franchisees. Therefore, we made a rebate on flour, shortening, coffee, cream, uniforms, and so on. At the time, there was concern among lawyers who followed franchising that these arrangements might be a violation of the law.

The Sherman Antitrust Act passed at the beginning of the twentieth century held that it was a *per se* violation in restraint of trade to require the purchase of one item if it was tied to another. Basically, you could not force the franchisee to purchase any goods unless you could prove the goods were unique. The remedy under law for the guilty party was treble damages. This was a huge sword of Damocles hanging over our system, threatening its very existence. Loscocco and company were aware of this risk and moved to restrict rebates to just five items they felt could be argued were unique. For all other items they deemed fungible, such as cream and uniforms, they negotiated a fixed monthly payment in exchange for allowing franchise owners to negotiate directly with their suppliers on those products. Problem was, there was no rhyme or reason to the amounts negotiated. The monthly charges bore no resemblance to quantity or to any standard as far as I could see but rather depended upon the negotiating skill of the parties, generally ranging from \$20 to \$100 per month.

Sam Bader, who had experience with this threat in his previous jobs, kept urging me to scrap the whole system and move to a straight royalty, which was unquestionably legal. He argued convincingly that the tied products were not unique. Franchisees could buy comparable donut flour and shortening on the open market at lower prices, since they had no rebate included. Proponents of the

tie would point to the Carvel case where the courts held Carvel could require franchisees to buy soft ice cream mix from the company because the product and the brand were inextricably tied. I was chastened by what I saw as the botched fixed-dollar agreements signed just a year or two before my stewardship, but I was encouraged by the story Keith Roper told at the International Franchise Meeting in 1964 in Lake Arrowhead, California. He was a senior manager of United Rent-All, and he related how he had shifted his two hundred franchisees from a rebate arrangement to a percentage of sales royalty.

It was just the right message at the right time. Like Rent-All, we had about two hundred stores at the time. I returned to headquarters and asked my cousin, who was CFO at the time, to calculate our rebate percentage. It was 5.2 percent. I decided we'd open our books, show each franchise owner how much we were making in rebates, and ask them to sign a royalty arrangement of 4.5%. We would agree never to make a rebate again. It was a huge risk. It was possible one or several franchise owners would take the information to an attorney and sue for restraint of trade and treble damages in a class action law suit.

That would have spelled the end of Dunkin' Donuts.



That would have spelled the end of Dunkin' Donuts.



Much to my relief, all but one of our franchise owners agreed to the new terms. As it turned out, those franchise companies that did not move to a royalty system but continued to make their money on rebates were eventually sued and subsequently failed. The change in contract turned out to be my first, but not my last, near-death experience as a CEO.

Another decision I was called upon to make in those early years had to do with the sale of the company. My father continued to put pressure on me to explore selling the company. The better the yearly results, the greater the pressure. He would regale me with stories about people he had met on the golf course who would tell

him they were once worth \$10 million but lost it all because events and time had turned against them. “Shame on them,” he would say.

Pressure ramped up as a rash of restaurant companies began selling out to large food manufacturers. In the 1960s, most consumer goods companies were awakening to the fact that a huge shift was afoot in the way food was being sold. Nearly 50 percent of food was purchased away from home and away from supermarkets, its traditional source of distribution. As a result, Pillsbury bought Burger King for \$18 million from Jim McLamore, General Foods scooped up Burger Chef from Frank Thomas, and General Mills purchased Red Lobster from Bill Darden. Pepsi first gobbled up Pizza Hut from the Carney brothers, then they bought Taco Bell from Glenn Bell. Quaker Oats launched Magic Pan, their own restaurant chain. We didn’t escape the attention of these food manufacturers either.

At the suggestion of one of our donut mix suppliers and my father’s urging, I found myself—along with my dad—with Nate Cummings, owner of Sara Lee (Consolidated Foods) at the Waldorf Towers. Ensnared in Nate’s beautiful dining room, replete with impressionist masterpieces, we enjoyed a lavish breakfast as we listened to what was a tentative and unsolicited offer of \$7.5 million for Dunkin’. I asked for some time to think it over. I was opposed to the idea of selling, and I was even more strongly opposed to listening to offers.

This whole issue came to a head in June of 1967. My entire family: my sister, Carol; my brother, Donald; my mother, nicknamed Bookie; my father; me; and my wife, Lorna were attending my brother’s graduation from prep school. After the ceremony, we all gathered in a booth at a Howard Johnson restaurant near Cheshire, Connecticut. It was there my dad made his case for selling the business.

He pointed out that a lot of smart operators we knew well had decided to sell, insisting that the time was right for us to do the same. He repeated his stories about golf course buddies who were once worth \$10 million but now that the tide had turned didn’t have a thin dime.

This was not a new conversation for me; in fact it was one we’d

had countless times over the past few years, and each time it caused me great anxiety. In the booth that day I made the same point I always had, that when running a business, all hands had to be on deck. That it was impossible to run a business successfully with one foot out the door and one still kicking the competition to the curb, which included our nemesis, Mister Donut. Further, I argued, our recent record had been stellar, and if that trend persisted we could go public and the money would come. Truthfully, however, at that point most of the stock in the company was owned by my father, and the rest of the people around the table didn't stand to make much.

Dad, as was his habit, pressed the point, contending, *if not now, when?* This was one of the most intellectually challenging moments I had to face in my early years. My answer certainly wasn't to be found in books or graduate school classes.

After a few moments spent gathering my thoughts, I proposed what I believed was an original notion. The time to sell is not when an offer comes over the transom but rather when you have neither the energy nor the ideas to achieve your financial objectives. That is the time to sell and allow another management team, one that *does* have the vision and energy, to pick up the baton. Still, no matter, how much I believed in what I was saying, I had a very large lump in my throat. Yes, we were growing at an incredible clip, and I had a lot of faith in the future of the company. But just then, sitting with my clan over lunch, I was turning down a substantial payout not only to my dad but to my entire family.

It was a decision I never regretted. Nate Cummings and Consolidated Foods went on to purchase Chicken Delight. Unfortunately, Chicken Delight was one of those companies that made its money from rebates on supplies sold to their franchisees, a practice deemed illegal. Unable to pay treble damages, the company went out of business. Conversely, I watched the value of our enterprise go from an unmet asking price of \$1.5 million in 1963, to a public offering price of \$40 million in 1968, to a value of \$320 million in 1990, and finally to a public value of approximately \$6.5 billion today.

On the negative side, a decision I did come to regret was our early entry into England in the fall of '64. I had gotten a call from my dad

to clue me in that Mister Donut was about to go on a trade mission to England and Germany for the express purpose of opening the European market. “Surely, Bob, we can’t allow them to do that! We risk losing a four-hundred-million person market to our arch rivals and contenders for the crown of the most important donut company in the world. . . .” It all sounded right to me.

So off he went with a small entourage on a state department tour. He held press conferences and made big news in the *Financial Times* and elsewhere announcing how we were going to open stores in England and Germany and teach Europeans all about franchising.

Upon his return he suggested I rehire Loscocco to represent us. Loscocco had worked as a consultant after leaving Universal Food Systems and advised Pillsbury, a Dunkin’ supplier, on their Burger King acquisition, but he had yet to find permanent employment and was willing to locate to London to head our new European operations. What a deal! Off my father went back to Florida or to his health retreat in Durham, North Carolina. Off to London went Loscocco and up went my expense charges for a Hyde Park office, a secretary, and a chauffeur for Loscocco.

Unfortunately, there was little progress to show for all this international expense. On my first trip to London in 1965, Loscocco took me to a failing supermarket on Edgware Road near Hyde Park corner. I later discovered the supermarket owner had become Loscocco’s personal chauffeur after the supermarket failed. A year later, we did open our first location in Ludgate Circus near Fleet Street, not far from Saint Paul’s. Sales were poor, as Londoners had yet to gain the habit of coffee to go in paper cups and breakfast away from home. We were primarily seen as a bakery with little eat-in or to-go business.

Our second location was on High Street in Ealing, a London suburb, and had equally tepid results. I asked Frank Tuminello, our in-city specialist, to give his assessment. After two years and hundreds of thousands of dollars in expenses, Tuminello advised me to give it up. The London market had proven just too different an eating-away-from-home culture, and our resources and management were insufficient to change it. I agreed and after two difficult

and costly years, closed the whole operation down. Mister Donut, perhaps reading the same tea leaves, never opened a store in Europe after all.

GETTING READY TO GO PUBLIC

Another activity that required my personal attention was getting the company ready for a public offering. The strategies we put in place and the organization we created to execute those strategies had worked extremely well over that five-year time period. Store count had risen from 100 to 267, while average volume per store had grown from \$111,000 per year to more than \$140,000. Corporate profits had exploded from \$133,000 at the end of 1963 to \$727,000 (eight-seven cents per share) at the close of our fiscal year in 1967, amounting to an eye popping 50 percent compound rate of growth.

A public offering was the only strategy to fend off a sale of the whole company and monetize my father's holdings, a commitment made to my dad years earlier. To enable the best sendoff, we took several strategic steps to put in place a number of key elements.

To assure the public that our financial statements were reliable, we used the services of a then Big Eight public accounting firm, Price Waterhouse, as our accountants. The noted Boston law firm, Ropes & Gray, guided us on any stock issues, their association implying we were handling our prospectus and representations correctly. A few years previous, my father had established an executive stock option program with the help of Ropes & Gray, setting aside 10 percent of the company's common stock for options for key executives.

We banked with the Bank of Boston, the same firm that McDonald's used. Bill Brown, our account manager and eventual CEO of Bank Boston, advised us on how to best present our creditworthiness by arranging a \$1.5 million loan from John Hancock Insurance Company. Paine Webber was selected as our lead underwriter to manage the initial offering; the same company that led McDonald's initial public offering in April 1965.

To broaden our board of directors, we added several outside members. Joining my father and me on the board were Richard W. “Archie” Southgate, partner and eventual managing partner of Ropes & Gray; Milton Brown, Lincoln Filene Professor of Retailing at Harvard Business School; and Homer Severne, retired senior vice president of finance at John Hancock Insurance Company, our lender.

BENEFITS OF AN EXPANDED BOARD

It didn’t take long to feel the benefits of having some outsiders on the board. Milt Brown quickly championed the notion of tightening our focus even further. He argued that although we had reduced allocation of cash resources and time behind our industrial catering, vending, and hamburger businesses, maybe we should consider exiting those businesses entirely. His arguments proved compelling and we proceeded to do just that.

Bill Beebe put a process in place to sell the vending and cafeteria business, ultimately negotiating a \$1 million dollar sale to one of our largest competitors, Canteen Corporation. We reached accord with the twenty Howdy Beef n’ Burger franchise owners to allow them to keep the name and certainly their locations, but we were going to cease being a franchisor of that brand. Many of those franchise owners also owned or shared sites with Dunkin’ Donuts stores. They continued under the Howdy brand, while other franchise owners rebadged their restaurant to other food brands. These last acts put an official end to Universal Food Systems. We were no longer a portfolio of many disparate food businesses but a streamlined and focused donut and coffee company.

The stock market at the end of the 1960s was incredibly robust. Though the country was simultaneously waging and funding a war in Vietnam as well as a war on poverty at home, the burdening effects of the Johnson administration’s guns and butter policies had yet to affect the stock market. In fact, the effects of those policies were not to be felt by the stock market until the early 1970s.

THE BIG DAY ARRIVES

On February 6, 1968, the renamed Universal Food Systems, underwritten by PaineWebber, went public as Dunkin' Donuts Incorporated with an offering price of \$20 per share. We were the third fast-food company to go public following McDonald's and Kentucky Fried Chicken.

The first trades came in quite strong and the stock price soared that first day. The market had finally picked up on the mind-blowing growth potential in the away-from-home food industry; demand for the stock was feverish. At February's close, the bid was \$32.75, up 60 percent in three weeks. My father sold 229,000 of the 300,000 shares offered that day, retaining a 45 percent ownership of the business after the offering. After broker commissions he netted almost \$4.5 million in cash proceeds; that money plus the remaining shares he owned easily made him the millionaire he always wanted to be. He moved eighty miles away to Exeter, New Hampshire where he became an instant gentleman farmer with the purchase of a several hundred-acre farm where he bred and raced harness horses.

The company also sold about fifty thousand shares that day, amounting to just over a million dollars, adding handsomely to the company's coffers.

The entire management team as well as my family members, who either had options or were gifted stock, were jubilant.⁶

In retrospect, it looked as if we were being rewarded with the same accord and multiples that defined, in future years, the dot-com era. Before long, Dunkin's stock was trading close to a breathtaking \$66 a share. What a turnaround! A company that couldn't fetch \$1.5 million in 1962 was now worth more than \$120 million. What more could I have asked for as I approached my thirtieth birthday?

THE END OF THE DONUT WARS

Another of the achievements of that era was the successful conclusion of the donut wars. It was rumored that Mister Donut had ex-

panded in far too many markets, which resulted in both low store sales and multiple closings, decimating corporate profitability. David Slater left the employ of my Uncle Harry to start a business of his own, and the company lost momentum. Uncle Harry and Slater decided to follow the path of other fast food pioneers of the times—get out of the business. Uncle Harry eventually sold Mister Donut for \$6 million to their flour supplier, another Minneapolis miller, International Multifoods.

LESSON ONE: Leadership Is Paramount

The most important lesson I learned over these years is the paramount role leadership plays in the success of any entity. Be it the United States government, a company, or even a family unit, influence flows from the top down. If the leadership shows itself incompetent or of poor character, it cannot be fixed from the middle or the bottom. It can only be remedied with a replacement at the top.

In my experience, successful leadership is part art and part science. The portion that is art—qualities like empathy, creativity, aspiration, and introspection—may be instinctual, traits that someone may be gifted at birth. The science component deals with the science of management that focuses on concepts, practices, and skills. I think both can be taught, possibly the science more readily than the art. In my opinion, one doesn't have to be a naturally born leader to be successful.

The best lessons are handed down from able mentors, individuals who have manifested practices and philosophies that have resulted in demonstrably effective leadership. My business school professors were my first inspiration, but as time went on I was galvanized, educated, and coached by a mix of seminars, books, and my fellow colleagues. In retrospect, it becomes clear that a healthy dose of humility can be the best asset in the pursuit of learning and betterment.

A word to would-be entrepreneurs who aspire to a leadership role in their company: apprenticeship plays a major role in the likeli-

hood of success. This became crystal clear to me shortly after I retired and began teaching franchising as an adjunct professor in the graduate school at Babson College.

Offering the pinnacle of entrepreneurial education, much of Babson's program offerings stemmed from the work of Jeffrey Timmons and subsequently from his collaborator, Babson professor William Bygrave. For his doctoral thesis at Harvard Business School in the 1960s, Timmons investigated what actions or inactions affected the odds for entrepreneurial success.

Timmons' research illustrated that 80 percent of successful entrepreneurs launch their business in an industry where they have worked at least three to five years. My father's launch of Industrial Luncheon Service supports this finding. For years he worked to build routes for truck food sales before starting his own business in that field. He understood the language, the metrics for success, and most importantly, knew how to design his business to nail a sustainable competitive advantage—tough nuts to crack if you aren't in the business! He always ran into trouble when he strayed from his path. His diversification into other businesses where he lacked this crucial knowledge and experience were simply less successful. Yes, his move to donut shops did work out, but I would contend that any success achieved stemmed from skills of subsequent managements.

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The concept of success being greatly enhanced by three to five years of apprenticeship dovetails with Malcolm Gladwell's contention in his 2008 book, *Outliers*. Based on studies of elite performance, Gladwell noted that success was “an extraordinarily consistent (result) in an incredible number of fields . . . you need to have practiced, to have apprenticed, for 10,000 hours before you get good.”⁷ Five years of forty-hour work weeks adds up to just more than ten thousand hours. Of course, there are serial entrepreneurs,

those who launch booming businesses over a range of industries, but the odds for success overwhelmingly favor those who have apprenticed in their industry. One of the biggest reasons franchising is such a successful business model is because it abbreviates those many years of necessary apprenticeship through rigorous training programs that distill decades of experience.

LESSON TWO: Family Businesses Pose Unique Challenges

Most businesses around the world are family owned and managed. Yet amazingly only 30 percent⁸ successfully transition to the second generation. Fewer still make it to the third. Often the reasons stem from family conflict. And, more often, that breakdown arises from changing roles and poor communication.

A flashpoint can occur when leadership passes from the founder to the next generation. As a business goes through these transitions, I believe the contribution of the founder must always be honored. It is an unalterable fact that without their vision and fortitude in starting a business, there would simply be no business. That said, unlike a nonfamily business, it is my observation that most founders never see themselves as fully retired from the business they birthed. As a result, the “retired” founder can become a barrier to the change that must occur if a business is to grow.

For example, as a company scales to one hundred employees, leaders—once plugged into every detail—are now required to possess different skills. They now must manage managers. Changing the old ways can often spark conflict between the founder and the new generation of family leadership. In my case, bedrock adjustments in strategy, organization, franchise contracts—even the name of the company itself—had to change if the enterprise was to flourish.

Issues over remuneration and equity can also lead to conflict in a family business more easily than in a nonfamily enterprise. I have seen companies in which the owner has not been explicit about his

or her personal objectives. Some founders see their objective as building an enterprise beyond themselves. They define success if the business flourishes by passing it on to successive generations. Conversely, there are founders who see the business as their creation, and as such, believe they are entitled to harvest the majority of the value from the business in their lifetime.

Another potential complication of a family business can be the differing and sometimes overlapping roles of family members. All are family. Yet some may also be involved in managing the business and some may not. There may well be differing levels of ownership within the family. These differences often prove fertile ground for jealousy and grievances.

For a family member, joining a family business can present a significant opportunity. It can also present some unique challenges. I hope that by identifying some of these concerns, those who are joining family businesses will be aware and undertake conversations to clarify roles and equities. Today, unlike the 1960s, there are many well-qualified consultants specializing in family enterprises who can help families sort out these very knotty issues.

In the 2017 movie *The Founder*, Ray Kroc appropriated undeserved credit for founding McDonald's. The movie made clear that it was not Kroc but the brothers Dick and Mac McDonald who were the geniuses behind developing the service delivery system that revolutionized the restaurant industry.

Still, it was Ray Kroc who saw and exploited its potential. The fact is, it often takes a village to create a lasting enterprise. In the case of McDonald's, the McDonald brothers and Ray Kroc needed one another to succeed. I would contend that the same symbiotic relationship existed for my dad and me. Fortunately, if the business is successful, there should be enough credit and financial reward for all who help create and grow it.

LESSON THREE: Quality Matters

I am hard pressed to think of any long-lived business that doesn't have, at its core, exceptional quality in either its products or services. This is particularly true in the food business. Whether it's Heinz Ketchup, Budweiser's Beechwood aged beer, or Hershey's chocolate bars, each product shares two common attributes: they're all delicious and they're all created from the finest ingredients. For me, at Dunkin and Baskin, that meant we used real cream, real fruit, and the finest spices and flavorings we could find.

This belief in the pivotal importance of choice ingredients was instilled in me during a visit to the Watervliet Arsenal when I was nine years old. During a contentious meeting on that day my dad argued passionately for quality over price. This conviction was reinforced early in my presidency when my father told me the story of Charlie Lubin, a man he met during one of his many extended stays at the Rice House Diet Center at Duke University in Durham, North Carolina.

My dad couldn't have been more excited for me to meet this guy, the baker who founded Sara Lee. Charlie's best-known product was the Sara Lee pound cake which he had invented in the 1950s, followed by numerous high quality frozen baked goods sold at supermarkets. So off I went to Chicago to meet Charlie, who by now had sold his company to Nate Cummings of Consolidated Foods—yes, the same Nate Cummings who had offered \$7.5 million to buy our company, an offer I had turned down.

Charlie and I met for lunch high up at his dining club that overlooked LaSalle Street in the loop. After a delicious meal and a bit of small talk, I turned to Charley and asked,

“So Charlie, my Dad said you had the answers to success in the food business. What would you advise a young man like myself?”

Charlie took some time, then leaned over the table and in a whisper uttered, “Buttah.”

I was taken aback. I said, “Excuse me, can you repeat that?”

He said, “What do you think a pound cake is?”

I responded, “I have no idea.”

Charlie then told me something I never forgot: “A pound cake is a pound of flour, a pound of sugar, and a pound of butter. Butter tastes absolutely delicious—there is no substitute for it—it’s the real thing.”

On my flight back home to Boston, I reflected on my conversation with Charlie. It was clear that any success we had to date had been as a result of our unyielding commitment to product quality, and it was at that moment I vowed that choosing the best ingredients would continue to inform every future product decision.

At that time, we sold only two main products, coffee and donuts. Our quality had to be top notch in order to distinguish ourselves from anything else offered in the marketplace. Dunkin’ was the first food service chain to make coffee the centerpiece of its menu. Sure, the occasional fine hotel or restaurant went to great lengths to serve a superlative cup of coffee, but these were the exception to the rule.

In 1950, the coffee business was beginning what would become a fifty-year decline in coffee usage, yet we were growing despite this mighty headwind. Poor quality vacuum packed and instant coffees, along with the growth of other caffeinated beverages like colas were cutting the average per capita consumption of coffee bought from forty-five gallons per year in 1946 to less than twenty gallons by the year 2000.

To combat that trend, we committed to offering the best cup of coffee in the world. We were unyielding in our pursuit of quality. We even went so far as to have twenty-seven pages of specifications on how to prepare and serve this wonderful brew.

Our devotion to donuts was as focused and painstaking as the attention we lavished on our coffee. I contend that it was our uncompromising pursuit of quality from our inception in the early 1950s that propelled the donut to become one of America’s all-time favorite treats.

In my thirty-five years with the company, I cannot recall even one conversation that suggested altering quality to save on costs. Just the opposite. As an example, when ultra-pasteurized 18 percent butterfat cream became available, it offered lower cost due to its 180-day

shelf life.⁹ Nonetheless, it was quickly rejected because we thought it just didn't taste as good as the standard pasteurized cream. Our attitude about quality can best be summed up by a joke that circulated around our office: "White bread is rye bread that underwent a profit improvement program."

Our quest for quality didn't end at our ingredients. We were just as serious about teaching franchise owners and store staff the intricacies of producing consistently stellar products in our shops. Within weeks of becoming CEO—never shy about appropriating a good idea when I saw one—I borrowed an idea inspired by McDonald's University. DDU (Dunkin' Donuts University) was born in September of 1963.

The first four weeks of the six-week training program were spent mastering the creation of the product itself: how to mix the dough, roll and shrink it, proof and fry it. Sounds simple, but it was tricky. The making of donuts was very much an art. As opposed to hamburgers—the creation of which was always the same (McDonald's food products were made elsewhere and delivered to the restaurant for grilling or frying)—our owners had to manufacture and adjust for varying humidity and temperature to create an acceptable product.

Then there were the daily realities of the business: One worked fast in a hot kitchen over a fryolator, often getting splattered with sizzling shortening. It took a lot of hand-eye coordination to get the job done. To pass, a student had to demonstrate the ability to make two hundred dozen donuts, up to spec, in an eight-hour shift. If the student couldn't come up to par, they wouldn't graduate, and we would return their money. Not everyone was cut out for it.

If they passed the "practical" exam, students spent the last two weeks on management, studying best practices relating to marketing, personnel management, and store profitability. Since we had no classroom or any conference space at 440 Hancock Street, the management portion was held at the end of my long conference table. I might be dictating a letter to Lee Schultz, my secretary, while a DDU class of four or six people was in session at the other end. Since I really had no prior experience with standard office procedure, this whole arrangement did not feel awkward or strange to me.

ERA 2: 1969-73

A FALL FROM GRACE



BACKGROUND

The time is April 1974 and the place is the boardroom in our headquarters in the Randolph Industrial Park in Massachusetts. Our quarterly meeting was coming to order. Bob Howard, a friend of my father and new board member, sat across from me. (Howard was the founder of Centronics, a company that made printers for computers.)

Bob cleared his throat, then turned to me. “Bobby, the results these past three years have been disappointing to say the least. In fact, this past year the company had a \$1.7 million loss. The stock is trading at less than two dollars a share and the board has decided to make a change. We want you to search for your replacement.”

I was taken aback, but somehow collected myself and found my voice. “Searching for my own replacement is inappropriate. That’s the board’s responsibility.” All eyes on me. I felt the sweat bead on my forehead. “Look,” I continued. “We understand the problems that have led to this debacle—we’ve corrected them. The solutions haven’t had a chance to pay out yet. I ask you to let me lead for another quarter to see if I’m right about this. Then we can evaluate whether a search is in order.”

I took a deep breath, got up and left the conference room to let the members discuss the situation and decide my fate.

So what went wrong? How could a company that seemed so well positioned in 1968 morph into such an unmitigated disaster five short years later? Not only had we lost \$1.7 million, or eighty-two cents per share in 1973, but our profits had fallen off a cliff in the two years previous to our loss in 1973. In 1970, continuing our unbroken string of 30 percent-plus earnings growth, we had earned ninety-five cents

per share. But that proved to be our high-water mark. The subsequent year earnings had fallen precipitously to fifty cents per share and improved to only fifty-five cents by 1972. These results were incredibly disappointing and a far cry from our objectives.

We were also embroiled in a treble damage class action lawsuit instigated by eight of our franchisees. If an antitrust violation and class were decided against us, the potential damages could have skyrocketed to more than \$80 million and spelled the end of Dunkin' Donuts. On top of that, we were ensnared in a stockholder class action suit in the first district of New York in connection with a secondary stock offering we had made the year before. Finally, we were in the process of shuttering eighty of our six hundred shops and had assumed operation of another twenty to prevent them from closing. We were teetering on the precipice of unmitigated disaster, the collapse of everything we had worked for.

The responsibility for our problems—every last one of them—was mine.

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STRATEGY

Upon graduation from business school, I envisioned our future as a focused donut and coffee company. By 1968 I had become less certain and had begun to develop a new vision. I began to think of our company as a franchising company rather than just a retailer of donuts and coffee. My reasoning, faulty as it was, went something like: if we could grow earnings per share at 50 percent-plus per year with a donut and coffee business, as the law of large numbers came into play—the larger the base earnings, the greater the incremental dollars needed to be generated to maintain growth of earnings per share—we stood a good chance to continue that record-breaking pace by franchising other concepts as well. That shift in vision and

mission was a significant change that was to cast a huge shadow over all of our activities for the next several years.

What were the dynamics that led me to such a transformational notion? At the time, I was serving as treasurer of the International Franchise Association and would become that association's tenth president in 1973. (I had served as treasurer, then vice president, and finally, chairman.)

The International Franchise Association, or the IFA, was the only trade association that represented the franchise system of distribution. Its mission was to provide educational and lobbying resources for its members, especially the benefits, best practices, and potential pitfalls of this system. The organization comprised several hundred members, including major bottlers such as Pepsi, food service franchisors like McDonald's, and service system franchisors including Manpower, United Rent-All, Snap-on Tools, and ServiceMaster.

Preceding me as chairman of the IFA was Al Lapin, founder of the International House of Pancakes, or IHOP. Al, at forty, was ten years my senior. He was an LA guy, a charismatic leader in the process of forming a diversified company using the franchise model as its key competence. He had already purchased Love's, a chain of west coast barbeque restaurants, Orange Julius, and Bryant Schools—a chain of secretarial schools. Al had approached me about buying Dunkin' Donuts to add to his franchising empire. I passed on that idea but was intrigued by his vision and his dreams. Maybe franchising was a better business for growth than a donuts and coffee business alone.

That change in thinking was to take the company and the attention of its senior managers in a new direction, one with big implications. I began to focus not on our Dunkin' Donuts business but on new franchising opportunities. I explored several avenues: opening a national chain of men's haberdashery stores with the Hat Corporation of America, and—with IBM—a chain of learning centers to help young people with remedial reading and math skills.

Those initial pursuits never came to fruition, but one idea we pursued to actual operations was a fish and chips chain we named Charles Goodlight Fish and Chips. I had traveled to England often

in the 1960s in connection with our abortive effort there, and I was impressed by the number of fish and chips shops throughout the UK.

Meeting Haddon Salt at an IFA meeting influenced me as well. Haddon, a Brit, founded a chain of fish and chips restaurants in the US called—not so strangely—H. Salt Fish and Chips. I had observed over the years that most successful fast food concepts had their origins in delicious foods that were easily eaten by hand: items like pizza, fried chicken, hamburgers and French fries, tacos, and donuts—and most were too difficult or messy to be prepared at home. So it was not too much of a stretch for us to decide and try our hand at a chain of fish and chips shops. It didn't hurt that Haddon had quickly sold his chain to Kentucky Fried Chicken for a cool \$15 million.

I brought on board a friend of Tom Schwarz, George Haggerty, as vice president of development. It was George's job to oversee Charles Goodlight Fish and Chips, as well as to lead our diversification efforts at finding other concepts that could be quickly grown using the franchise system.

If business diversification wasn't distracting enough during those years, I ventured, yet again, into international development. Not sobered enough by my losses in Britain, I sought and sold a master franchise for Japan to the highly successful, diversified, and publicly owned retail group Seibu. This was once again in response to a strategic move made by Mister Donut. Although Mister Donut never expanded into Europe, they did issue a master license for Japan before their sale to International Multifoods in 1968.

Mister Donut's licensee was a privately owned (and very successful) franchise company headquartered in Osaka called Duskin, which had a unique way of conducting business. They franchised territories to individuals who—for a fee—called on households in their district with the intent of swapping clean dust rags for soiled ones. Hence the name Duskin: "Dust King." The company was founded and led by spiritual leader Seiichi Suzuki, an adherent of a religious organization called Soka Gakkai, a Buddhist movement that holds community service as one of its core precepts. Before a

franchise was sold for either a Duskin or Mister Donut in Japan, the prospective franchisee had to knock on a stranger's door and offer to clean the bathroom. This exercise was designed to see how committed the prospect was to a life of service to others. This Japanese Mister Donut franchisee was to prove to be a formidable competitor. In the early 1970s I spent a good deal of personal time—several weeks per year—negotiating our license and launching our operation there.

If changing the *mission* from a focused domestic coffee and donut chain to a franchising company wasn't problematic enough, I also set the wrong *objective* as well. But I was riding high on success. Growing earnings per share by more than 50 percent in the previous five years was heady stuff, and having a stock trading at forty times earnings was beyond intoxicating. It led to my blissfully ignoring the problem attendant to the law of large numbers.¹ One mistake I made was to grow too fast. In those days, my accountants, Price Waterhouse, allowed us to reflect as income the entire up-front franchise fee of \$15,000, irrespective of whether the store had opened or not. To book the money, I only needed a signed franchise agreement and to have a designated location.

To further spur growth, Bill Beebe, our CFO, was able to convince our lender, CIT, that there wasn't much difference between our "movable" prefab stores and conventional masonry buildings. In the end, the prefabs proved unworkable because of intractable construction problems. But now the real estate department, armed with the ability to sign land-only leases without worrying about building financing, could grow the chain at an incredible rate. Within five years we had opened more than two hundred of these leased locations, adding more than \$25 million in owned buildings to our balance sheet.

So what was the problem? We were financing prefab buildings over a seven-year amortization schedule—like equipment—rather than the traditional twenty-year life associated with all such long-lived assets. This would be fine if you can handle the mortgage payments; not so fine to be freighted by such heavy debt if times went against you. And, of course, I was tacking on the cost of addi-

tional real estate and franchising executives to grow the system in each of our five regional decentralized offices. At our peak, we were opening 140 new stores a year.

My duties, among many others, included maintaining quality control over site selection of these new stores. I'd leave home at dawn every Tuesday and return bleary-eyed Thursday night, crisscrossing the country as I checked out the new locations. My method of madness was this: in each town, I'd tool around the neighborhood of the proposed store and pronounce, with a thumbs up or down, whether the location was a go. No metrics other than my own hunches. Somehow, I thought God had imbued me with this sixth sense, an ability to determine if a site was suitable by casually looking around. Time would soon prove I had no such otherworldly gifts.

Contributing to this already extended agenda, I invested in two ill-conceived R&D projects, enlisting Arthur D. Little, a consulting firm in Cambridge, Massachusetts, to help us with both. The first was the development of an automated machine that could crank out donuts, eliminating the need for the increasingly scarce donut maker. The second was to develop a process to deliver high quality frozen pies to be baked in each store, an idea inspired by the success of just a few newly opened Marie Callender's pie shops in California. Both endeavors proved costly and unsuccessful; in 1973—the year we pulled the plug on the donut machine—we suffered a \$1.7 million loss; \$500,000 from this ill-advised idea.

I learned two valuable lessons from that experience. First, it's wiser to ask an open-ended question of a consultant rather than tasking them to fulfill any prescribed notion. Had I not led the conversation with such specific expectations—a donut-making machine—and instead asked for an alternative production process that wouldn't compromise quality, things might have turned out differently.

I made the same mistake with the pie project. The better request would have been to ask Arthur D. Little for their help to develop a process for selecting complimentary new products, rather than telling them to develop a pie program for us.

The second lesson learned was the crucial importance of distinguishing between a fad and a trend. Marie Callender's pie shops proved to be the former, as did H. Salt Fish and Chips. Had I not been so impatient—had I waited a year or so to see how these products panned out in the marketplace—a lot of painful and costly missteps would have been avoided.

Worldwide geopolitical conditions were not helping our cause. The Middle East oil embargo curtailed automobile traffic. The ban on the Sunday sale of gasoline added to our burdens, Sunday being our busiest day. To top it all off, Nixon's price controls would not allow us to pass on commodity cost increases to our customers.

Price Waterhouse changed partners on our account in 1971, adding to my woes. The new partner, Art Segal, challenged our practice of recognizing the whole franchisee fee as income as soon as the franchise was signed and a location secured, a practice that had been sanctioned by the firm for the past fifteen years. Art argued that the fee should not be booked until the location actually opened for business. This was a painful proposition. We had had a secondary stock offering that year, and the company had just sold \$2 million dollars in stock. We argued against the proposed change all the way to the managing partner of Price Waterhouse at the time, but to no avail. Income for half of the 140 stores opened that year had already been booked and had to be taken off the books, reducing income dramatically in 1971. Stockholders who purchased shares in that year's secondary offering sued both Price Waterhouse and us in a stockholder class action suit in federal court.

ORGANIZATION

The concept of decentralization was not necessarily a bad one, but I had placed too much pressure for growth on each of the regional vice presidents without giving them the tools necessary to handle such expansion in a quality way. The pressure to open stores led us to veer from our past policy of staying focused on building our brand in specific markets; instead it was pure numbers, pure growth. Quality suffered.

Carl Zucker, our state licensee for the State of Texas and former marketing chief, had expanded rapidly with fifty new stores. What happened with these stores showcased just how blind I had been to not only regional differences but to the impact of opening in a market where well-loved competition—the Lone Star and Shipley donut chains in this case—had been rolling along for decades. Our Texas stores were failing and closing at a fast pace. Zucker couldn't fulfill his development agreement and backed out, leaving us to pick up the pieces. Shops that had opened in isolated markets in the South and Midwest had similar dismal sales and were shutting their doors one by one, a drumbeat of failure that was beginning to sound all too familiar. In 1973, our *annus horribilis*, I was forced to reserve more than \$1.5 million to cover the cost of all the closed stores, in addition to other write-offs.

There were other damages, beyond the balance sheet. Bill Beebe, my old business school friend, now CFO, lost confidence in my leadership and resigned from the company. His departure came as a severe loss to me personally—a real blow to a decade-long friendship—and to the company as well. This was a smart and able guy, whose input and guidance I valued highly. He had also led me to Tom Schwarz, now a key player and someone who would play an even bigger role in the company in the months and years ahead. Jack Alpert, our family and corporate lawyer since the early 1950s, died of a heart attack at age fifty-eight. It was among our company's darkest moments—a very sad and tumultuous time.

COMMUNICATION

Unlike earlier years, when I would travel to regional meetings and meet face to face with franchise owners, my contact with these crucial players was now limited to my speech at the annual convention. Now my time was taken up flying all over the country assessing new locations, as well as traveling back and forth to Japan to negotiate and launch our operations there and attempt to flatten Mister Donut. And increasingly, I was spending up to a third of my time on International Franchise Association business. I was a very busy guy,

with not a lot of downtime or even time for my family. My communication was increasingly being done in Washington as part of my IFA leadership duties and not spent among my staff and franchisees.

The International Franchise Association was formed at a “Start Your Own Business Show” at the Stockyards in Chicago in the spring of 1959, four years before I assumed leadership of Universal Foods System. Many of the exhibitors were newly formed franchise companies looking to find franchisees to grow their burgeoning brands. The exhibitors, dissatisfied with the quality of the show, decided to throw in \$10 apiece to start a trade association that would not only run more effective shows, but also work to educate practitioners, the public, and legislators about the benefits of the franchise system of distribution. They rightly reasoned that no company could undertake that role on their own.

My dad was among the attendees that morning when they raised \$1,900 and named themselves what—at the time—seemed a presumptuous title, The International Franchise Association. They elected Al Tunick, founder of Chicken Delight, as its first president. He served in that role for the first two years while Elmer Winters, founder of Manpower, served as first vice president.

How prescient these early pioneers proved to be. Franchised brands like Burger King, Holiday Inn, and H&R Block were immensely successful and were popping up all over America. Accompanying all that success, however, were some growing abuses.

By the late 1960s, the franchise method of distribution had come under severe scrutiny. Legislation was being proposed in Washington and various states that would have severely crippled the viability of the franchise system. As the remarkable success stories of McDonald's, Kentucky Fried Chicken, and Dunkin' Donuts spread, promoters began to conclude that a well-known name associated with a product was the recipe for a multimillion dollar public offering. So almost overnight Jerry Lewis Movie Theaters, Minnie Pearl's Chicken Houses, Conway Twitty's Twitty Burgers, Roy Rogers's sandwich chain, and Kenny Rogers Roasters were born.

I'll never forget a speech I heard at a franchise forum in 1969 at Boston College. John Jay Hooker, Kentucky gubernatorial candi-

date and Minnie Pearl founder, had been regaling the audience with his love of franchising, recalling a conversation with his brother and business partner, Henry Hooker. “Henry,” John Jay had said, “I just sold the State of Louisiana for \$250,000, and it felt so good, I think I’m going to sell it all over again.” It got a big laugh from the audience, but in my mind it was no laughing matter. I thought it was a scandal. Innocent people were losing their hard-earned savings buying into franchise systems that were not proven, that had not built a product or service with a competitive difference, and did not employ a distribution system or marketing strategy that would make for a flourishing business.

What many didn’t understand was that it wasn’t the name McDonald’s that was responsible for such record-breaking success. Rather, it was a business system: their pioneering of a Henry Ford Model-T production line delivery system not only streamlined the process of creating delicious sandwiches inexpensively, but they had the ability to market them with the most sophisticated packaged goods methods known. This same ability to provide the consumer with better value and convenience was at the heart of the success of other franchise food chains like Kentucky Fried Chicken and Dunkin’ Donuts.

The state and federal legislation that was being considered not only sought to end certain abuses but in some legislatures went so far as to discuss outlawing the system of franchising entirely. Both the automobile and petroleum dealers associations saw this as an opportunity to win long sought-after legislation that would finally better their hand in dealing with their big corporate franchisors. Legislators were being urged to consider all offerings to be registered with the federal government, outlawing earnings claims, insuring required buy backs, and restricting new distribution in existing markets for fear it would impact existing franchises. They urged legislators to require automatic renewals of franchise agreements after the original term had expired.

So I found myself, as incoming chairman of the IFA, testifying and urging Congress—in countless hearings—to allow the association to put into effect its newly established code of conduct, in es-

sence allowing us to police ourselves. Senator Philip Hart of Michigan was charged with fashioning national franchise legislation. It was he and his staff who ultimately decided to stay federal legislation in favor of the Federal Trade Commission setting national disclosure standards. The FTC established a universal registration statement that required of all franchisors a detailing of the offering, information about key executives and their backgrounds, earnings claims, and a ten-day cooling off period between signing the contract and when it became in effect.

I also testified before the Small Business Administration. Their general counsel, Phil Zeidman, held hearings to restrict franchise systems from participating in government lending programs. Phil was a brilliant lawyer who would in later days, after his tenure in government, become a close advisor, friend, and defender of our company. He, too, was convinced that the benefits of the franchising system outweighed the problems and, ultimately, stayed the hand of government from interfering.

CRISIS MANAGEMENT

Taking action wasn't my problem in those years. The fact is, I would have been far better off had I been more contemplative. My impetuousness and aspirations led me to spin my organization off in too many directions at once. Shades of my father.

In the midst of all the tumult, on the very night I assumed the chairmanship of the IFA, the part-time association managers in Chicago asked for an unsupportable increase in their retainer. I demurred; they resigned. Now I had to figure out how to position the association for the future. I decided to look at this as an opportunity to move from part-time association staffers in Chicago, who represented other associations in addition to ours, to our own full-time executive. And since most of the political action was in Washington, Phil Zeidman and I decided to move the offices of the IFA there from Chicago.

I hired Howard Rogerson, a former SBA executive in Washington, to be our first full-time executive director. I introduced Howard

to our membership in meetings as we toured around the country. This was a major move for the IFA.

The following year, IFA's executive committee raised the annual dues from \$600 to \$6,000 a year from each company, based on their revenue. We calculated that the association needed that kind of income if we were to afford the staff needed to do a proper job. Had we not received support from the membership, the association certainly could have folded at that time, but I'm happy to report that the organization thrives to this day.

I remember the first IFA meeting I attended in the summer of 1964. It was at O'Hare Airport, and the attendance was so small we conducted the meeting around one round table. Today the IFA's annual convention is attended by many more than three thousand participants, and it is one of nation's strongest trade associations.

In the sixty years since its founding, the Association has grown into a respected and effective force: in Washington, state capitals, and in selected international venues.

LESSON FOUR: Suggestions for an Effective Planning Process

The Cheshire cat in Lewis Carroll's masterpiece, *Alice's Adventures in Wonderland*, uttered some of the wisest words I've ever heard. In essence, he warned, *If you don't know where you are going, it doesn't matter which way you go.*

To me, these words meant: whether it be a government, a family, a business, or an individual, if the entity does not have a clear plan as to what they want to be, what they want to have, and the four to six initiatives that will best take them there, the outcome is most likely to be very unsatisfactory.

Although the following lesson details a planning language and process in a business setting, the approach I propose can be applied, albeit less formally, in other settings with equally good results. For example, I propose as part of the planning process the involve-

ment of a board of directors for review. The involvement of outsiders brings discipline and better effort to the process. But the review need not be as formal as what one might expect from a board of directors. A group of advisors who meet regularly could serve this purpose as well. In a family setting, a “kitchen cabinet” of a few trusted friends, whose opinion you value, could serve as a sounding board for your plans.

In the introduction to this book I declared that one of the four major responsibilities of a leader is to steward strategy. The following are the language and steps I used to carry out this critical function.

There are numerous formulas and approaches to strategy creation. Many creative ideas are proposed by major strategy consulting firms like McKinsey or Boston Consulting Group. The approach I used and am suggesting here may not be the last word, but it has served me well over the years.

For me, it all begins with precise language and a clear and unchanging definition of terms.

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In my experience, terms like *vision*, *mission*, *objectives*, *goals*, *strategy*, and *tactics* can be misunderstood. I have seen these words not only employed differently from one executive to the next in the same company but used differently within a company from one planning cycle to the next. The upshot of this imprecise language most often leads to conflict, misery, misalignment, and failure. The solution is to have an agreed-upon definition of planning terms used consistently and understood throughout the enterprise.

1. Vision. *A vision is a statement about what the leadership agrees a company could reasonably stretch to be in a generation—a thirty-year aspiration.* If the statement doesn't contain the words *to be*, then it doesn't fulfill the requirement. For example, a thirty-year vision might be something like this: We wish to be the largest food service company in the United States as measured by sales within thirty years.

2. Mission Statement. *If a vision is what you want the business to be by the next generation, a mission is what you wish the company to be over the next three to five years.* This is the next step in strategy creation and arguably, the most critical. It is here that leadership decides not only what they wish the enterprise *to be*, but just as importantly, what it will *not be*. This statement casts a spotlight over not only all the activities the company will and won't focus on but where resources will be allocated. So if the mission is to be *a diversified food service company*, the strategy of a portfolio of companies and the concept behind Universal Food Systems makes sense. But if the mission is to be *the dominant donut and coffee provider in each and every market in which you compete*, then an entirely different agenda is set for the organization. In my opinion if a mission is miscast, the best organization in the world can't save you.

Agreeing on a mission statement is hard work. It requires the CEO and his team to be absolutely realistic about its capabilities and about the competition it faces. Max Dupree, former CEO of the office equipment giant Herman Miller, wrote the 1987 book *Leadership Is an Art*. In it he says the most important job of a CEO is to define reality. It is working through the mission statement where this notion of defining reality is most tested. The management needs to see the world and themselves as they really are, not as they wish to be.

They must know their customers and their competition cold. They must be able to see where they have or can build a sustainable competitive advantage. And no competitive advantage is sustainable indefinitely. Customers and competition are constantly changing, requiring management to revisit, on a regular basis, the subject of what you want to be.

3. Objectives. *If Vision and Mission are what you want to be, then objectives or goals (interchangeable terms in my lexicon) are what you want to have.* There are literally hundreds of activities one can measure in a business. Sales, costs, customer satisfaction measurements, return on investment, production utilization—the list is truly endless. At every level of the organization there are a few goals that are most critical. These are the ones that most define success. I believe a group can

keep their eye on no more than three to five objectives at a time. At the corporate level at Dunkin' Donuts, we selected three critical objectives we believed most defined success for our company.

Our objectives were:

- to have earnings per share grow at 15 to 20 percent per annum,
- to have shop level economics achieve at least a 15 percent return on investment on average, and
- to have debt never amount to more than three times EBITDA (earnings before interest, taxes, depreciation and amortization).

Other subentities in the company may select other measurements that best reflect achievement of their plans. For example, if one of the strategic initiatives of the overall company was to constantly improve customer satisfaction, the operation department's plan may call for one of its three to five objectives the improvement in customer satisfaction scores by 5 percent for the year.

4. Strategic Initiatives. *These are the four to six most important tasks an organization must execute in order to best bridge ever-scarce resources to achieve the stated objectives.* My belief is that every entity, even one as rich as the United States, has limited resources. Furthermore, it's my contention that no organization can effectively turn its attention to more than six major initiatives at a time. I have observed that if you ask an organization to pull more levers than that at any one time, none are executed well.

The responsibility for achieving each strategic initiative cascades down through the organization. For example, in our case, we decided the best way to achieve our 15 percent earnings per share goal—one of our six strategic initiatives—was to grow new distribution (new stores) by 3 percent per year. That translated to the real estate division having as one of their objectives the opening of one hundred new stores in the coming year. That department would then detail the four to six initiatives needed to accomplish this objective.

For example, they may decide their initiatives would be:

- hire two additional real estate executives
- open up three additional markets for development
- upgrade their real estate brokerage network in four markets

5. Tactics. *The four to six action steps needed to support the achievement of each department's strategic initiative.* Tactics are a more granular look at the initiatives. As the objectives cascade down to the last level of the organization, tactics are what the executive must execute to ultimately get the job done. Again, using the real estate department as an example, the department might have an objective of opening a hundred stores in the coming year, but an individual real estate representative might be responsible for opening twenty of those shops in his geographic area. So a sample of his initiatives might look like this:

- Find a new broker to represent the brand on the north side of town.
- Work with three qualified franchise owners to expand in their areas.
- Arrange the purchase and remodel of two closed Kentucky Fried Chicken outlets to our brand.

THE CRUCIAL ROLE OF THE BOARD

I have found that an active and engaged board of directors, whether in a public or private company, dramatically raises the level of discipline and professionalism brought to the planning process. No question that management lifts their level of play when they know they will be presenting their plan to an outside board. Regarding the board's responsibilities, I believe strategic planning ranks second in importance only to their duty and authority to either retain or dismiss the CEO.

To help the board accomplish its core responsibilities, we established an annual agenda to address a rotating cycle of issues at each meeting throughout the year. Most boards meet four to six times a

year and review a standard agenda of company concerns. Rather than just review the most recent financials and discuss issues as they occur, we decided that each of the four meetings should have its own focus.

In addition to the usual committee and financial reports, we decided that at our first meeting a full brand review should kick off our annual planning cycle. At this key meeting, the CEO or marketing chief would give an in-depth review of where we stood in comparison to our industry, including our competitors. It was a detailed assessment of our strengths, weaknesses, opportunities, and threats.² All the while, we used the lexicon *vision*, *mission*, *objectives*, and *strategic initiatives*. It was absolutely essential that everyone in the organization understood and was aligned with the plan going forward. This was particularly true of the board. These reviews were designed to raise essential strategic questions and give board members a chance to weigh in.

The second of our four meetings focused on a five-year plan. Within the context of a brand review, management put actual numbers to the plan. Again, this review gave all board members an opportunity to question the strategy.

The third meeting is designed to review the annual plan. It should dovetail to the five-year plan.

Finally, the fourth meeting of the year is dedicated to a review of the organization's "depth," defined as adequacy and promotability of key staff members. The CEO presents a review of each key executive's performance, ability, and timeframe for promotion. It gives the board an opportunity to see how deep the management team is and forces a look at potential succession for every position, including the CEO.

Had that format focusing on strategy been in place, it is quite possible that the board might have caught me as I teetered on the slippery slope of mission creep. They might have pointed out the errors of my misguided change in mission and my devastatingly unsustainable objectives.

LESSON FIVE: Importance of Striking the Right Balance between Exploitation and Experimentation

Michael Tushman, Harvard Business School organizational theorist and manuscript advisor, maintains that only a small fraction of businesses make it beyond forty years. To make it into that elite circle requires a certain amount of ambidexterity: the ability to simultaneously protect the core yet experiment and adapt to an ever-changing marketplace. Too many or inappropriate changes or too few can spell the end of an enterprise. Achieving the right balance between exploration and exploitation is the art of leadership. I would contend that the creation of Universal Food Systems demonstrated that my dad and his team were ambidextrous. Unfortunately, I also believe they were seriously unbalanced. With eight separate businesses running the gamut from a small hamburger chain, to pancake houses and a delicatessen, they did a lot more exploration than their small and inexperienced management team could handle. By the same token, by not getting their arms around Dunkin' Donuts, the “diamond in the rough” in their midst—and getting it scalable—they were way too light on exploitation.

In this second era of my career, I too fell prey to miscalculating the balance between exploitation and experimentation. My impetuosity, arrogance, and lack of wisdom sent me spinning out new businesses under an expanded mission while simultaneously managing a trade association, expanding internationally to Japan, and engaging in the development of a novel donut-making machine. Not only were some of the activities misguided, but they were too numerous and far afield for my young and thinly manned organization to handle. It is little wonder the board was about to fire me. Fortunately, I saw the error of my ways in time. It is said one can learn a lot more from failure than success, if you can survive it. I know that's true in my case. This is a lesson I will never forget.

ERA 3: 1974-80

THE RESURRECTION



BACKGROUND

We return to the Dunkin' Donuts boardroom on that fateful April day in 1974. The board had been deliberating for about an hour before asking me to rejoin the meeting. They were deciding whether to fire me or give me another quarter to prove my claim that management had a handle on the problems and that it was only a matter of time before they were remedied.

That hour seemed like an eternity. I knew how disappointed the board members were and that a radical change might be coming at me fast. Just days before, my wife, Lorna, and I had been walking around our newly built home as we discussed conditions in the company and just what the future might hold for us. We loved our new house and had been there only a few years but were resigned—if things fell apart—to sell and begin anew.

I took a big breath and reentered the room. Bob Howard said the words I'd been hoping to hear: "Bob, we've discussed the matter and have decided to give you another quarter to see if you are, in fact, on the road to recovery."

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"Bob, we've discussed the matter and have decided to
give you another quarter to see if you are, in fact,
on the road to recovery."

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I let out a huge sigh of relief and told them they wouldn't regret their decision.

My confidence in the future was real. I believed we had realistically assessed the problems and that in fact most of the big issues had

already been fixed. I was further—and probably most importantly—buoyed by my confidence in the team I’d gathered around me.

From the day he joined the company seven years earlier, Tom Schwarz had demonstrated his superior talent and capabilities. He quickly ramped up to administrative vice president, responsible for purchasing, design and construction, and human resources. A few years later he moved up to executive vice president, responsible for all operations and administrative functions. I found myself increasingly turning to him for advice on all corporate matters.

My relationship with Tom was best summed up in a book by Michael Eisner, now retired CEO of Disney, titled *Working Together: Why Great Partnerships Succeed*. Ironically, Eisner suffered a reputation for having an ego bigger than all outdoors. His book tells a different tale, however. In it he makes the point that behind most successful lives and companies you will not find just one driving force but most often two. He details how colleagues who like, respect, and complement each other’s talents not only bring out the best in each other but the best for the company. Eisner posits that “partnerships built on friendship, devoid of envy, jealousy, and rivalry, is the best pathway to success.”¹

Eisner tells the story of how Stanley Gold, Roy Disney’s representative, made it a condition of Eisner assuming the CEO role at Disney that he would co-CEO with a relative stranger, Frank Wells. Frank was a lawyer and former head of Warner Brothers. When Eisner balked at the notion of co-CEOs, Frank graciously agreed to be chief operating officer. That began a friendship and symbiotic relationship that would last ten years until Frank’s untimely death in a helicopter crash in April 1994. Eisner details what it was like to work with someone who not only protected the organization but him as well, someone who advised him and supported him and did it all selflessly. That ten-year partnership will be remembered as the halcyon days of Disney’s miraculous turnaround. Problems sprung up at Disney right after Frank’s death. First, Jeffrey Katzenberg, the very talented head of animation, left followed by the incredibly costly and public failure associated with the hiring and firing of Michael Ovitz, the short-lived chief operating officer.

Eisner goes on to tell of ten other notable partnerships and their successes: well-known alliances such as Warren Buffet and Charlie Munger, Bill and Melinda Gates, and in baseball, Joe Torres and Don Zimmer. He recounts the stories of pairs who are similar, tales of duos who differ radically in manner and temperament, partners of similar age and those born decades apart, loud and colorful characters aligned with modest and withdrawn figures. For all the contrasts, there is one common thread: these are people who love what they do and have found that true partnerships create happiness.

I felt I had that same winning relationship with Tom. In the book *The Winning Performance: How America's High-Growth Midsize Companies Succeed*, the authors state: "At Dunkin' Donuts, the marketing and strategic skills of Bob Rosenberg go together with the finance and administrative wizardry of Tom Schwarz like...coffee and doughnuts."² In reality, the lines were a little fuzzier, since we both possessed those skills, but the fact remains that we were partners in all matters. I cannot think of a major decision made where we didn't agree. Good times and bad, successes or failures, we shared laughter and tears—never recriminations or finger pointing.

That feeling of comradeship and trust extended to the next nine in command.³ I never felt diminished or threatened by my teammates' skills or ideas—just the opposite. In fact, I was comforted to be surrounded by such incredible talent. My confidence stemmed from my belief that there was no problem or issue so great that we couldn't solve or get through it together.

STRATEGY

After realizing the error of our ways, we closed the three fish and chip shops and ceased looking for other concepts to franchise. We also abandoned and wrote off our forays into both the automated donut equipment and frozen pies project. We closed nearly a hundred of the worst performing shops and wrote off the prospective real estate costs attendant to those closings.

In 1974, we launched our first new product since Jumbo Java: the now world-famous donut hole treats called Munchkins. Like so

many good ideas that improved our business, this one came from a franchise owner.

For years at Halloween we'd collect the donut holes produced from our first-cut cake donuts, put them in cellophane bags—very much like potato chip bags—and showcase them on the counter in clip-on displays. We'd leave them plain or roll them in powdered or cinnamon sugar. We thought they made a good trick or treat item. These donut holes sold quite well the week or two before the holiday.

In the spring of '73, I got a call from one of our most successful franchise owners, Bob Demery. He said, "You have to come down and see what Edna has done!" Bob and his wife, Edna, owned two stores in Hartford, Connecticut. Rather than collect donut holes left over from the cutting, Edna had made a new cutter that yielded a larger product, each one-fifth of a regular donut size. She made both yeast and cake and finished them like regular donuts; some had fruit fillings and others she honey-dipped. She devoted the entire front showcase to these new kind of donut holes, piled high. His voice full of excitement, Bob added, "They're selling like crazy. Our business is up 20 percent!"

It wasn't more than a day or two later when Tom and I, with our marketing head in tow, paid Hartford a visit. Sure enough, it was exactly as Demery had said. We knew then and there we had the making of a big winner.

We viewed this as a special project and retained Hill Holiday and Cosmopolis, at the time a small advertising agency. They had done a very good job a number of years earlier with our aborted hamburger chain, Howdy Beef n' Burger. We liked them and believed Steve Cosmopolis, the creative partner, was very talented. Cosmopolis' first suggestion was to call these new treats "Penny Poppers." We were intrigued and sat with the idea for a while but eventually believed inflation was at hand and we'd never be able to hold the line on a penny per donut hole.

In those years, CBS would play the 1939 classic *The Wizard of Oz* annually, which of course featured the Munchkins, the little people who inhabited the land of Oz. Hill Holiday and Cosmopolis thought

the name was a natural and pushed to see who owned the rights. They discovered that Jack's Cookie Company in Louisiana had trademarked the name. Archie Southgate, an attorney and board member, was recruited to reach out to Jack's and see what could be done to use the name for our donut holes. As it turned out, Jack's had yet to find a use for Munchkins and Archie leased the name for a dollar a year.

The agency created Maxfield Parrish-like characters to adorn our boxes—little people shown making and finishing the donuts a la the Lilliputians from *Gulliver's Travels*. We had package sizes of ten and twenty, and buckets of thirty. And, of course, a customer could buy any number if they chose.

We launched our ad campaign, as luck would have it, during the great oil embargo of 1974. Despite the long lines waiting for gas on odd and even numbered days and the frayed tempers that went along with it, our introduction of Munchkins was a smashing success. Our same-store sales skyrocketed by more than 12 percent. Not since the introduction of Jumbo Java had we seen such industry-topping sales performance.

But undoubtedly, the biggest sea change in the company came about as a result of answering a question posed by one of our board members, Archie Southgate: "What would the world look like if you really slowed down new-store openings? What if you focused your time, money and attention on strengthening the existing shops?" In all honesty, my first reaction was that such a change in strategy would throw an unacceptable crimp in our earnings growth.

But I liked and respected Archie, and his question kept cropping up in my thoughts, so much so that I soon felt compelled to provide him with a decent answer.

Years before, while in graduate school, I had become familiar with Jay Forrester's work at MIT on simulation, a new technology that allowed one to model a company's performance under a wide array of assumptions. Our head of computer operations was Tom Johnson, who, as luck would have it, was an MIT grad. I approached Tom about whether he could build such a model. Before I knew it, I had a tool by which our team could make strategic assumptions

about our growth in same-store sales, general and administrative expenses, new-store growth, and profit margins of company-owned shops. This indispensable tool could model our earnings growth with tremendous accuracy and would become part of our semi-annual strategy reviews for decades to come.

And lo and behold, I could now answer Archie's question with a great degree of certitude. The model demonstrated that, in fact, we could reduce growth from 140 new stores a year to just forty. With some reallocation and reduction in overhead coupled with modest assumptions about same-store sales growth, we could grow earnings per share for many years at a 15 to 20 percent clip. The result? We refocused our *mission* and reduced our *objective* to a much safer and much more achievable rate.

ORGANIZATION

With a slower growth strategy, we decided to drop our decentralized form of organization. We would keep our regional presence, using smaller offices to service our operational supervisors in the field, but bring back to headquarters our best executives to head up a now-functional organization. Ralph Gabellieri, who had moved his family from Rhode Island to Texas at great personal sacrifice to solve our problems there, returned to headquarters to helm franchise operations. And just as he had done in Rhode Island a decade previous, Ralph fixed the problems: he closed some low-performing stores, moved other poor performers into stronger franchise hands, and uplifted the region through better operations.

We strengthened our team with some new hires as well. When Tom Schwarz was promoted from his position as head of human resources, he recruited Rick Powers as his replacement. Rick was a talented executive and an excellent athlete who played baseball on the Williams College team and was, for a time, a pro prospect. Tom recruited Rick from General Electric, where he worked in the human resources department.

Tom also hired Sid Feltenstein as regional VP in the Mid-Atlantic

zone. When we reorganized, Sid assumed responsibility for company-owned store operations. After graduation from Boston University, Sid had gone to work for Procter and Gamble as a management trainee, then to the Speidel Watch Company, finally helping to create the Candy Corporation of America. Sid would prove to be a transformational player in our company's fortunes.

The most unusual, and I'd say extraordinary, of these hires, was that of Larry Hantman as vice president and general counsel. After Jack Alpert's sudden and untimely death, I had decided to bring our legal function in house. I had been sitting in my office worrying about the growing list of litigation in which we were embroiled, mentally paging through all the lawyers I knew who might be able to bail us out of our legal nightmare. I lit upon Larry Hantman, one of my old fraternity brothers at Cornell. Although we lived in different off-campus housing, we ate lunch and dinner together every day. I remembered Larry's wry sense of humor and keen intellect. "Larry would be perfect," I thought. "I wonder where he is now and whether he'd have any interest. . . ."

Within an hour, Rick Power, our human resources chief, stopped by my office to tell me he'd just gotten off the phone with a local headhunter who'd spoken with an old friend of mine. "He spoke to a Larry Hantman," Rick said. "Larry is at Tyco and although he doesn't want to put any pressure on an old friend, he asked if he could speak with you." I was dumbfounded. I don't believe in divine intervention, but nothing like this has happened to me before or since.

We lost no time arranging a lunch meeting, and I offered Larry the job on the spot. He left Tyco and became one of my most trusted advisors and closest friends. I have always considered this turn of events a godsend. The company never had another significant legal controversy from the day he joined to the day I retired.

After enduring 1969 to 1973, a brutal five-year stretch, I was convinced that we had finally put together a superb organization. We had amassed a complementary group of individuals who liked and respected one another and an appropriate strategy and set of sound objectives that would serve our company for years to come. These

strong elements gave me confidence in my promise to the board that the worst was behind us and that they would have no reason to regret their decision to keep me on board.

COMMUNICATION

During those trying years, other activities had gotten in the way of implementing a communications program for both our own executive team and our franchise owners. In the end, there was a fearful price to pay for that omission.

We were embroiled in a class action suit brought by nine franchise owners that had the potential to destroy the company. In addition, a few franchisees had instigated a movement to form their own union.

My first reaction was anger. In my eyes, many of these franchise owners were ingrates and were acting out of line. After all, they were among the most successful in our system and were on their way to riches they might have never achieved had it not been for the Dunkin' Donuts system.

But that view changed drastically one night as I sat ensconced in my favorite chair in my living room reading a book just penned by David Halberstam titled *The Best and The Brightest*. Halberstam told the story of the failures of the Kennedy and Johnson administrations in their management of the Vietnam War. As he saw it, the war was being waged on our part by smart Harvard and Yale educated managers like Robert McNamara and McGeorge Bundy. Those leaders were “the best and the brightest” our country had to offer, but they suffered from what Halberstam called “hubris,” a Greek word for arrogance. They relied on statistics and information supplied from the field and their own insights. Regrettably, they never traveled to the towns and hamlets in Vietnam. They never talked to the community leaders on the front lines in an attempt to understand the facts and the real issues. As a result, the United States was losing the hearts and minds of the South Vietnamese citizens, and losing the war.

That's when lightning struck. *Oh my God, Halberstam could be just*

as well be talking about us. The very next day I shared my insights with Tom and the team, and we began to fashion a remedy.

First and foremost, we decided that when problems occur, we would never blame the followership but rather assume that the fault lay with the leadership. We would take on 100 percent of the responsibility.

Next we agreed that we would institute a store-visitation program in which each of our ten senior managers, including myself, would travel to at least one hundred stores per year. We would visit with district managers and get to know them and their issues. That first year I visited 113 stores seeking coffee, donuts, and ideas. These meetings gave us the chance to talk individually with each store owner in his or her own shop. Finally, we resolved to devote one of our monthly senior leadership (operating committee) meetings each quarter to sharing our findings.

This program yielded countless wonderful benefits. For one, it provided priceless insights into how to improve our system. For another, it gave us an opportunity to demonstrate our respect and recognition of the importance of skilled, knowledgeable district managers and store owners. Time is the most precious asset; it took us a while as a company to realize that spending it with our franchisees was not time lost.

In my travels, I would habitually ask the district manager about his objectives and strategies for his district. This gave me a direct window into whether our management-by-objectives language was making its way through every layer of the business. My two favorite questions for the franchise owners were: “If you had the opportunity to invest in this Dunkin’ Donuts franchise today, would you do it all over again?” and “If you were CEO of this company, what would you do differently?”

We always would announce our visits in advance, since the purpose wasn’t to surprise and spot check for service, cleanliness, and quality but to communicate. We already had an inspection system in place that would measure those aspects of our business. And to our trained eye, even if the appointment was announced, we could reasonably assess how closely our operating standards were being met.

Another outgrowth of my aha! moment was our newfound commitment to breathe life into our moribund advisory council system. Years earlier, in an attempt to improve communication between franchise owners and company management, we had established an advisory council of franchisee leaders as identified and appointed by the company. They were to regularly meet with senior company leadership, or that was the intention; in reality it was administered in a haphazard way and didn't serve a useful purpose.

We concluded that the need for people of similar interests to meet and have input was a very normal human need. We had to look no further than the Rotary, Lions, or chambers of commerce in every community to see evidence of our conclusion. Ultimately, we realized that if we didn't fashion this organized system to air grievances and share collective wisdom, the franchise owners would create it themselves.

The system we created gave each store one vote to elect a district representative. Along with the district manager, each district representative would chair the regular district meetings. Each district manager supervised twenty to thirty stores. The district chair and cochair would attend quarterly advisory meetings in each of our five geographic regions: New England, Mid-Atlantic, Southeast, Midwest, and West. These meetings would be held with the regional vice president. Each quarter, the chair and cochair of each of the five regions would meet with senior management at the home office.

To ensure that the meetings at district, regional, and national levels didn't devolve into impromptu complaint sessions, we worked with franchise leadership to agree on a per-store annual earnings improvement objective as a focus for the meetings. The agendas were designed to look at strategic initiatives at each level, all with the goal of meeting the earnings improvement objectives. That is not to say we would not discuss contract modifications, but we would only do so in the context of how they might affect overall store profitability. This proved to be a powerful way to make contract modifications that improved the system dramatically. We also used the input from national and regional representatives on task forces to help us design needed improvements in the system. These owners

provided invaluable input on future store designs, additional advertising, new products, and improved distribution systems.

Though we attempted to train both our district managers and franchise leadership on how to conduct meetings, we weren't as successful there as we had hoped. We realized that when it came to group dynamics, the appointed leader might not be the person the group turned to for guidance. In some cases, the district manager was simply not as competent as the franchisee the district elected as its leader. Therefore, we set about to identify and train both.

Part of that training was to sensitize everyone to the importance of setting an intention for the type of conversations that were to be held in a meeting. For example, certain meetings can be characterized as information only: designed just to brief the group, say, on average profit and loss data for the district. Other dialogues might focus on brainstorming: a free-form exchange of ideas, with no decisions expected, discussing, for example, new product ideas. Then there are the powwows created expressly for decision-making, such as nailing down just what advertising promotion will be selected for the next quarter. We also trained all participants to use our strategy-planning language and format to keep the group on track.

CRISIS MANAGEMENT

Clearly the greatest threat to the enterprise in this era was the class action suit brought against the company. Class action suits were very much in vogue in the 1970s. These suits enabled one or a few plaintiffs to make a claim on behalf of a whole class of potential litigants. A judge's determination of a class was predicated on whether common issues predominate in the case or, conversely, whether potential claimants had a different and individual basis for their claim.

A battery of "strike lawyers" emerged who would take these cases "on a contingency"—a slice of the damages. It was an enticing incentive. If a class was determined, the leverage—based on potential damages—was so great most defendants would settle, often for huge sums. The plaintiffs' lawyers were, for the most part, entitled to one third of the judgment or settlement.

In 1972, nine past and present franchise owners filed a treble damage suit alleging violations of the Sherman Antitrust Act. They sought damages of \$80 million and injunctive relief. At the time, the company stock was at an all-time low, the total market capitalization sitting at no more than \$40 million. The plaintiffs asked Judge Edward Becker, a federal judge in the Third Circuit's District Court for the Eastern District of Pennsylvania, to find whether a class existed. They claimed the company engaged in a tie, compelling franchisees to buy equipment and lease real estate from the company in order to acquire the franchise. If true, this would have constituted a *per se* violation of the antitrust laws and entitle the aggrieved party treble damages.

The Third Circuit was known as a very friendly plaintiffs' jurisdiction. A short while before, General Electric and a few of their competitors had lost a major price-fixing case in that federal district, resulting in heavy prison sentences and huge damage payments. The plaintiffs in the Dunkin' Donuts case had selected the Berger Law firm in Philadelphia, a well-known strike firm and one of the winning firms in the GE suit.

Many of the plaintiffs were well known to me. Some of the nine were among our most successful franchise owners in the Mid-Atlantic region. I never spoke to them about their motivations in launching the suit. But I long suspected they saw the company in a weakened state and saw their actions as a way to take ownership of the system. Some of the leaders of the suit owned large stock positions in the company.

In any event, we were sure of our innocence. Several years previous we had separated our \$15,000 initial franchise fee from the \$35,000 equipment package. As a result, as long as the equipment met our standards, we were totally indifferent as to where the prospective franchisee purchased it. In addition, we had only engaged in leasing and subleasing real estate to franchisees because, for the most part, they could not get financing for the real estate on their own. We had long before concluded that real estate provided a far poorer return than issuing a franchise, which had an almost infinite rate of return. If a franchise owner could finance his real estate

without our credit we would have been thrilled. In those early years, the '50s and '60s, we were in the real estate business as a means to prime the pump, to build the brand for the day when franchisees could finance growth on their own.

So regarding these suits, we felt confident that the truth would come out. We believed we'd easily be exonerated based on our contracts and practices. The well-regarded law firm of Pepper, Hamilton, and Sheetz in Philadelphia represented us, while our attorney on the case was their antitrust expert, Alfred "Chub" Wilcox.

Larry Hantman was charged with the job of overseeing our defense. He had already demonstrated his skill and value at settling a stockholder suit in New York and other litigation he had inherited. He reviewed all of Wilcox's briefs and did a good amount of his own writing in our defense as well. Despite our innocence and Wilcox's assurance that there was no basis at all for a class finding, the potential outcome was so potentially cataclysmic that I found myself overseeing each step in the process.

Plaintiff's counsel was quite shrewd. In the hearing before Judge Becker, the Berger firm paraded a group of franchisees, all of whom aired their complaints. I was becoming concerned about the tone that the hearings were taking. I couldn't help thinking, "A judge is human too, and quite possibly he may be swayed by some of the hard luck stories he's heard." But Wilcox was reassuring. "He's too smart for that," he'd said. "We don't need any testimony to refute; we can rely on our contracts and the law."

Most of us can remember where we were and what we were doing when life-altering events like JFK's death or the 9/11 attacks occurred. Along with those dates, March 12, 1975, is one I will never forget. That is the day that Judge Becker issued his ruling; it was also the day I had invited Ron Joyce, owner of Tim Hortons donut chain, to our offices to discuss the possibility of buying his chain.

It was a rainy afternoon—a bad omen already. I met Ron in my office. As we were exchanging pleasantries, Lee Shultz, my administrative assistant, interrupted to let us know that Chub Wilcox was on the phone and needed to speak to me right away. I had a sinking feeling. Wilcox told me Judge Becker had declared a class and that

all current franchise owners were included. To not be included, a franchisee would have to petition the court (opt out). The judge actually wrote in his decision, “Where there is smoke there is fire.” Though he acknowledged that exceptions in dealings with each of the plaintiffs existed, this made no difference. I felt like someone had hit me over the head with a sledge hammer.

I told Ron Joyce what had just happened and excused myself. He said he understood. It was like I was walking in a dream. My stomach was churning. I got in my car and drove the half hour to my home, went upstairs to my bathroom, and vomited.

It was the worst possible outcome. An \$80 million threat hung over the head of the company. Until adjudicated, which could take years, the decision would, I believed, dramatically affect our stockholders and our relationship with our franchise owners. It seemed clear to me—just as I had feared—that Judge Becker had reached his decision based on emotions rather than our practices and the facts.

The following morning I called a meeting to discuss next steps. My dad, Archie Southgate, Tom Schwarz, and Larry Hantman were all in attendance. The first decision was to remove Chub Wilcox as lead attorney and replace him with Phil Zeidman.

I had first met Phil when he was general counsel of the Small Business Administration. Phil grew up in Birmingham, Alabama, graduated Yale as a scholar of the first rank, attended Harvard Business School, and finally graduated from Harvard Law School. After becoming special assistant to Hubert Humphrey, this country’s thirty-eighth vice president, Phil went into private practice in Washington, D.C., swiftly becoming known as the best franchise lawyer in the world.

My friendship with Phil began when I testified before the SBA in the 1960s, and we grew even closer during my chairmanship of the IFA, when we moved the association headquarters from Chicago to Washington. Dunkin’ Donuts had Phil and his firm on retainer at the time. He was one of the smartest people I had ever known, and I had turned to him for counsel on a wide variety of matters before this litigation.

I called Phil that fateful March afternoon, explained what had happened, and asked him if he wouldn’t take the case as we sought to

overturn the decision in the Third Circuit Court of Appeals. To my great relief he agreed; and Larry, Phil, and I began work on our appeal.

A short time after Judge Becker's decision, George Mandell, my brother-in-law and a very successful Dunkin' Donuts franchise owner, began an effort to convince other franchisees to opt out of the class. George had originally trained as a pharmacist, but soon after I became CEO of Universal Food Systems in 1963, George—with a small loan from me and my father-in-law—left his pharmacy job and bought his first Dunkin' Donuts store in Dorchester, Massachusetts. The man was a natural. He went on to build or buy five more locations over the next seven years.

George was not only my brother-in-law but also one of my dearest friends and yet another trusted advisor. Counting all the grandparents, parents, and children, our family unit now numbered twelve, so between birthdays and anniversaries we'd enjoy a family party just about every other week. These were not only occasions to celebrate but also opportunities for George to brief me on what was happening on the front lines and share franchise-owner reaction to our policies. His judgement was superb and his input invaluable.

I was barred by a gag order from discussing the litigation with our franchisees. George was aware of my limitations but took it upon himself to reach out to other franchise leaders in an effort to save the company. The goal was to convince franchise owners to opt out of the class. At their own expense, George and the franchise leaders set up phone banks, reaching out to franchise owners all over the country, explaining how it was in the franchisee's best interest to defeat the class. Without a strong parent company, they argued, their operations would suffer and the value of their franchises would diminish.

Larry, Tom, and I traveled to Philadelphia to attend Phil's argument before the three-judge panel in the Court of Appeals. Phil was absolutely brilliant that day, and we left court and flew back to Boston glowing with confidence that the judges had been moved by Phil's arguments and the briefs he, Larry, and Arthur Cantor, another lawyer in Phil's office, had composed. But it's never over until it's over, I knew that.

March 4, 1976.

Another day I will never forget, and not because it was my thirty-eighth birthday. I was skiing at Loon Mountain in New Hampshire when I got the call from Larry. The Court of Appeals had just handed down their decision. They had overturned Judge Becker's decision three to zip and wrote an opinion that fully vindicated us, laying bare the errors in Judge Becker's earlier ruling. I was deliriously happy. It was as if a thousand-pound weight had been lifted off of my shoulders. Best birthday of my life.

It wasn't just that the financial threat had been lifted. Of course that was huge, but I was also overjoyed that our franchisees had been able to convince other owners to opt out, that they had been able to convey the wrongheadedness of this suit, and had demonstrated that we were not the evil franchisors we had been painted to be. When the final results of the class were tallied, fully sixty percent of our franchise owners had petitioned the court to opt out. Though I don't follow these matters closely, I would guess that is a record, and by a very wide margin.

When I reflect on this trying time and our victory, the only sad memory is the premature passing of my brother-in-law, George. He was taken by cancer at a young age. In his honor, the Dunkin' Donuts franchisees, the company, and suppliers established a yearly "George Mandell Annual Golf Tournament" for the Dana Farber Cancer Institute. Over the years, they have raised tens of millions of dollars in George's name: a fitting tribute to one of the great heroes in the Dunkin' Donuts story.

LESSON SIX: My Take on the Tasks and Character of an Effective CEO

As I worked at my job, I thought a good deal about what tasks and qualities were important to be a good leader or CEO. The following are my conclusions:

1. Strategy: The CEO is the steward of the strategic direction of the enterprise. This critical function is to ensure that senior management defines not only the existing competitive advantage the company enjoys but where and how further sustainable competitive advantage can be discovered and built. The CEO, in concert with his or her senior management, decides what the company should be and—just as importantly—*what it will not be*. Easily said, but this deceptively simple process requires realistic assessments as well as vigorous and continuous monitoring and adjustment, since both the competition and the consumer are constantly changing. This kind of continual monitoring requires the CEO to know on an intimate level the strengths and weaknesses of his or her company as well as its competitors. A comprehensive knowledge of the industry in which the company competes is crucial to success. My store visits combined with my leadership roles in trade associations like the International Franchise Association and the National Restaurant Association were helpful to me in this regard.

2. Organization: The CEO bears the responsibility of recruiting and retaining talent with the requisite skills and abilities to execute the company strategy. As my guide to assessing and manning the organization, I relied heavily on the teachings of Peter Drucker, famed demographer, business writer, and teacher. In filling a job, Drucker would stress, it's best to first define the assignment in detail, then recruit and evaluate against the requirements of that assignment. But it is important to be limber as well. As the business changes, so do the assignments and, quite possibly, so does the search for the proper person to fill the job.

Another principal that guided me in manning the organization I learned from the Gallup Research Company and their work in organizational development. At its core, Gallup contends that everyone has strengths and weaknesses. They further believe it is very difficult, if not impossible, to remediate someone's weaknesses. They argue that the more effective way to build a high-functioning organization is to build on an individual's strengths, compensating weaknesses with other teammates who possess complementary

strengths. Key to this concept is that each teammate accepts that there is no shame in not being best at everything. The team understands and celebrates complementarity of their skills and aptitudes. Our team was composed of people with varying backgrounds and educational levels, but we shared a respect and trust in each other.

Selecting, coaching, and balancing the team takes a lot of time, but in my experience, recruiting and retaining the right organization ranks right up there with strategy as the most important and controlling factor in the success of an enterprise.

3. Communication: As CEO, you are the Communicator in Chief.

The responsibility for aligning all the various constituencies in the organization behind company strategy falls primarily to the CEO, but it doesn't stop there. Just when you think you have communicated clearly to all parties, go back over your message again and again. You cannot make your point too clearly or check back enough times to make sure that everyone in your organization has not only understood your message but *buys into it as well*. The company mission bears repeating, sometimes ad nauseum. Most constituents are busy—sometimes overwhelmed—with their own responsibilities, and the message often doesn't sink in until you have reviewed and repeated it countless times.

4. Crisis Management: The last task on my CEO list. The world is stochastic. Unexpected events—often large and impactful—occur in business as in life. This can affect an enterprise in meaningful ways, requiring the CEO's concerted, and at times, immediate attention and management. First, I would direct my attention to matters that I thought affected the survivability of the business, a condition which, in my opinion, is the foremost responsibility of management. The tests I would use to determine where and when to intervene were:

- **Materiality:** When the dollar amount of the decision under consideration is large enough to impact the earnings of the company in a quarter by 10 percent.
- **Scope:** When the decision in question affects many people or multiple departments within the organization.

- **Futurity:** When the decision creates changes that are of significant size and commit the company many years into the future.

I often joked that being a CEO was like being a sailboat captain. At the helm at sea you experience many moments of calm, but they are punctuated by moments of sheer terror when you have to tack. And tacking is what a CEO is often called upon to do in certain critical moments.

QUALITIES

I have found that being a successful CEO not only depends on what you do but just as importantly who you are: what you value and how you behave. First, I believe he or she has to possess a real passion for the business and for their role in it. Second, it is essential that a leader be trusted. Trust is at the heart of all lasting and successful relationships and a subject I will deal with more thoroughly in the next lesson. Integrity, humility, and empathy are also key characteristics a leader must possess in order to be successful over the long term. *The US Army Leadership Field Manual* lists many of these very same qualities as well.

In addition, good and lasting leaders are driven by a goal greater than just making money. In my experience, the most enduring enterprises are driven by a vision and belief that the business brings real and important benefits to the world.

STYLE

In the business press, you often hear about two distinct styles, often diametrically opposed, as models for leadership success. The first is the autocratic leader, a person who rules supreme over all others in the organization. As leader he or she makes most of the decisions and only relies on staff to implement them. We have all seen such leaders in history, in business, and in public life. I guess an argument can be made that there may be times in a company's life, or in

certain circumstances, where the decisive and quick action of an autocrat is required. But I believe that sort of leadership can only be successful, if at all, for a very brief period.

I believe a model known as “servant leadership” is the more effective and lasting one. Here a leader works to serve his or her people. The leader works to create a culture in which power is shared and the needs of the staff, not the leader, are put first. It is an environment where people are encouraged to create and lead as well as implement. Under this leadership style, the ingenuity and energy of the entire organization are more fully unlocked, resulting in higher performance. It is also a culture in which the leader takes the pain when things go badly (doesn’t blame others) and shares the credit when things go well.

LESSON SEVEN: The Importance of Trust and Mood in Coordinating Action

Over the years, I was fortunate to have many “teachers.” These include actual teachers, as well as authors and colleagues who provided insights and lessons just when I and the company needed them most.

Fernando Flores, the minister of finance in the Allende regime in Chile, was one such teacher. He had been imprisoned for several years when General Pinochet came to power. Following his release, championed by Amnesty International, he came to the United States and completed his PhD at Berkeley. It was then that Flores started a company called Business Design Associates, or BDA, in order to teach the connection between language and actions. I was introduced to Flores and his teachings by my brother, Donald, and his wife at the time, Terry, who urged me to attend Flores’ seminars. She had worked for Flores and BDA for five years as a coach and consultant. It was by attending these seminars that I began to more fully understand how powerful semantics can be in coordinating action between people. Among the many concepts Flores posits is

that we, as humans, create ourselves in language. And that most of us are not very rigorous about the language we use, suffering enormously as a result.

Flores contends that trust is key in all relationships. It exists in all successful relationships and is absent in all failed or faltering ones. He provides four measurable standards to determine if trust exists. He argues that if trust is given too soon, one is naïve, but withheld too long, one runs the risk of becoming a cynic. Trust should be given or withheld based upon one's observations of the following four standards.

1. The first is *sincerity*. According to Flores, sincerity exists when: "private and public conversations are the same." In other words, one does not say one thing to people's faces while telling a different story behind their backs. In the case of our franchise owners, there was only one story. We wanted and needed them to be successful and to earn a fair return for the risk and hard work they put in. I believe they came to understand we were sincere in this regard.
2. The second standard is *competence*. Competence is not the same as never making a mistake; rather it is the notion that one performs up to the standards for the job in question. So if one is a commercial pilot, the standard is being able to get your passengers to their destination safe and sound, even if you have to make midcourse corrections. If you are a CEO, some mistakes are tolerable, but you are expected to consistently achieve the objectives to which you committed. If not, you will be considered not up to the task or incompetent to do the job. I believe our franchise owners voted our management not perfect, but competent to do the job.
3. The third standard of trust is *reliability*. Reliability occurs when one competently manages one's promises, completing them on time and satisfactorily. If the person is unable to deliver as promised, due to extenuating circumstances, counteroffers are made, which may be either accepted or declined.

4. The fourth standard of trust is *care*. Care is evidenced when someone is committed to another's well-being over time, to his or her identity and future. People are seen and treated not as agents in a transactional sense, as someone who will serve our interests, but with a commitment to mutual satisfaction. This quality of *care* engenders partnership and intimacy, people working together creating a future. Even when circumstances require that someone be let go, it is done with respect and with an appreciation for the value of the relationship.

In retrospect, I see all four of these standards at play in the franchise owners' unprecedented decision to opt out of the class action law suit.

We promised our franchise owners a business system that, if followed faithfully, would be capable of delivering a fair return. When we became too preoccupied with opening new stores and not tending the system properly, we apologized, took full responsibility, and built an advisory system. We invited the franchisees in to help us fix it. In the process, I believe we demonstrated we cared. Their vote in the class action lawsuit demonstrated their belief that we did as well.

Flores also sensitized me to the importance mood plays in people's attitudes and consequently their actions.

He said that moods are transitory; that they come and go, that *they are only an interpretation of the future*. If that is true, then one can design a mood by virtue of how one defines the future.

If you are anxious, afraid, hopeless, or resentful, your mood will reflect those attitudes. By the same reasoning, if your interpretation of the future is hopeful and optimistic, your mood will mirror those sunny thoughts. A lot has to do with the language you use as you think about the future.

Leaders have an immense impact on the mood of their company and their followership. As a leader, you are being observed, often in minute detail, by everyone in your organization. Your words, even your body language, are clues and are all interpreted—particularly in tough times. If you cannot see your way to extricating your orga-

nization out of a morass, if you have no confidence in your plan or your people, then it is time to leave. Your spoken word and body language will soon reflect this truth. Your optimism and confidence in the future must be realistic to be believed. If your plans and interpretation of the future are not grounded or realistic, that, too, will soon be discovered.

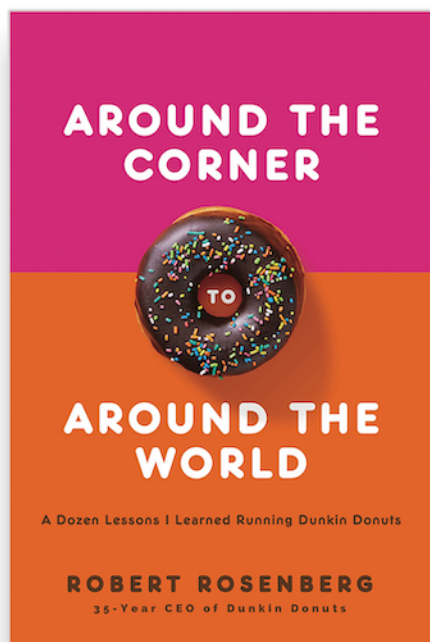
Authenticity is the coin of the realm and everyone involved will be looking for it and measuring you for it.



**Authenticity is the coin of the realm and everyone involved
will be looking for it and measuring you for it.**



And of course, people are astoundingly perceptive. In my own case, my promise to the board about our future was truly grounded, and I believed in it to my very core. I think that is the reason I was able to convince them to stick with me just a little bit longer.



Learn twelve key lessons from Dunkin' Donuts former CEO Robert Rosenberg that offer critical insights and a unique, 360-degree perspective to business leaders and managers on building one of the world's most recognized brands.

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