

Over there: why US formats 'take' in Europe

Over there
Send the word; send the word over there –
That the Yanks are coming¹

In 1917 this song served to announce the arrival in the UK of the Doughboys; in 2003 to the roar of PR cannons, across all media, including a full BBC Money Programme analysis and a fulsome endorsement from Lloyd Grossman, those latter-day American Doughnutboys, Krispy Kreme, secured their first UK bridgehead in Harrods. David McCaskey and Laura Burfoot consider the potential for success or otherwise of this latest incomer.

OVER THE YEARS, entry into the UK has formed a major growth strategy for many American companies. For example, we are inundated with their fashion brands—Levis, Nike, Tommy Hilfiger, Fred Perry. The world's largest company, food retailer Wal-Mart, is exercising its muscle as ASDA; their soft drinks—Coke and Pepsi—dominate. Their fast food outlets from McDonalds to Starbucks, via Domino's and TGI Fridays, form a high-profile part of our virtually cloned high streets and now, with the razzamatazz, hullabaloo and all that jazz usually associated with a US brand launch into the UK, Krispy Kreme are staking their claim with a view to establishing a presence with plans announced to roll out and replicate achieving 25 branches within 5 years.

This launch is exporting a turf war currently raging in the US where their main rival, Dunkin Doughnuts, has over 4,000 outlets, with stated intentions of opening 342 in 2003 and 630 in 2004. KK has only 360 stores but seems to have an ability to punch well above its weight and generates much media 'noise' and exposure. According to *Market Share Reporter*, 27 of the top 30 international restaurant chains are based in America. There is a clear sign that American presence overseas is prominent and growing.²

In this article, we will

- consider the successes and failures of US fast food brands in their penetration into the UK
- examine the Krispy Kreme product and in particular its marketing methodology
- determine whether the tide is running for or against

Krispy Kreme (KK) and from this conclude on its potential for success or otherwise.

Successes and failures

All companies seek year-on-year growth; inevitably when the home market is saturated and/or, opportunities are identified in another country, a strategy of market development is implemented. For US companies their initial growth is found by rolling across the border into Canada and inevitably, they identify opportunity present in the UK, attracted by what they perceive to be a similarity of language and culture, often viewing this as a future launch-pad into Europe.

McDonald's, KFC and latterly Starbucks present the most effective business model for success. All found gaps in the UK market and were able to achieve critical

McDonald's entered the UK in the 1970s, but did not franchise until the 1990s and then only to operators who had managed McDonald's outlets for at least five years.

mass within a relatively short period of time. All demonstrate the strength of branding and are supported by loyal and frequent customers. In the last couple of years McDonald's and KFC have had to rethink and re-engineer their product against current dietary



Krispy Kreme opens its first UK store at Harrods, London in October 2003. Some early birds anxious to get their hands on the first ever Krispy Kreme doughnuts in the UK. The first in line won a year's supply of doughnuts and the first 100 customers received a specially designed limited-edition Krispy Kreme/Harrods T-shirt set.

Justin Thomas/Vismedia

concerns.⁴ Others who have succeeded, most commonly with UK partners, are Pizza Hut, Taco Bell, TGI Friday's and Burger King. Currently fast growth is being achieved by Dominos Pizza and Papa Johns Pizza and Subway. Others on the horizon include Quiznos Sub, Blimpie International (a Subway competitor) and a second re-visitation from Wendy's. Undoubtedly, there are many other multi-unit US brands which will also attempt to cross the pond.

Franchising, as opposed to organic growth, has been a particularly successful method for businesses to achieve rapid expansion, attracting local entrepreneurs and drawing in their capital, thus developing 'spread' across the targeted country. However, it must be remembered that, although McDonald's entered the UK in the 1970s, it did not franchise until the 1990s and even then only to operators who had managed McDonald's outlets for at least five years, thus

no US fast food company has been successful here since the 1980s by following a strategy of starting in central London.

maintaining their brand standards.

One issue for Dunkin Doughnuts in delivering a perfect product was ensuring that new batter was mixed every hour, on the hour, and that fat in their fritures was both crystal clear and maintained at the ideal temperature or forte. (Remind yourself of the sump oil

historically found in the deep fat friers of the average British fish and chip shop).

Assessing success factors

Those that have failed to 'take' in the UK include Popeye's Fried Chicken, Arby's and—of particular interest to KK—Dunkin Donuts. Stewart Price, hospitality-industry analyst of Credit Suisse First Boston, suggests that

both Arby's and Popeye's failure came from renting over-ambitious and very expensive central-London sites, in a market where a newcomer is forced to compete with established chains on price in a fiercely competitive market which regularly sees price wars. It certainly takes confidence to tackle an established player with critical mass, customer loyalty and a high advertising spend, in a tight-margin market.

Also of relevance to KK is Price's assertion that

no US fast food company has come here and been successful since the beginning of the 1980s by following a strategy of starting in central London.⁵

Whilst figures are not available, it is reasonable to assume the KK is paying top buck for the prestigious concessionaire sit in Harrods.

Let's challenge some of those perceptions of commonality or sameness. George Bernard Shaw observed that the US and the UK are 'two nations divided by a

common language', eg biscuits (cookies), crisps (chips), chips (fries), sweets (candy), pictures (movies), motorway (freeway), petrol (gas) etc. We don't have the same language, we use the same words but they are often used in different ways, you say one thing but we mean another.⁶

Professor Larry Selinker, an American linguist at Birkbeck College, London cites many examples including

*in the UK 'to table a motion' indicates that it will be discussed, whereas in the US it means 'to put on the backburner'; if Bush and Blair use the word 'to scheme', both sides might see this as nefarious plotting, however, Britons would have no moral objection to going along with the scheme whilst law-abiding Americans would still be horrified by the words shady connections; meetings between Blair and Bush might have an agenda starting with 'Apologies' leaving Bush to wonder what he has to apologise for.*⁷

So if you think the differences between Washington and Whitehall are merely cosmetic, then (to quote President Bush) you are 'underestimating'.

The hyperconsumption debate

In her award winning book *Food Politics* Marion Nestle finds that

*The US food industry has given a food supply so plentiful, so varied, so inexpensive and so devoid of dependence on geography or season that all but the very poorest of Americans can obtain enough energy and nutrients to meet biological needs. The over-abundant food supply, combined with a society so affluent that most people can afford to buy more food than they need, sets the stage for competition. The food industry must compete fiercely for every dollar spent on food and market product that will sell, regardless of their effect on nutritional status or waistlines. To satisfy stockholders, food companies must convince people to eat more of their products. They do so by advertising and public relations, they also work tirelessly to convince government officials, nutritional professionals and the media that their products promote health—or at least do no harm.*⁸

In his introduction to this book, Eric Schlosser (himself no mean critic of US food production in *Fast Food Nation*—a powerfully argued exposé of the way the food industry is transforming not only the diet but the landscape, the economy, workforce and culture of the US) argues that

food politics underlies all politics in the United States. There is no industry more important to Americans, more fundamentally linked to our well-being and the future well-being of our children, Nestle reveals how corporate control of the Nation's food systems limits our choices and threatens our health.

Schlosser's closing statement should ring out a warning on both sides of the Atlantic—'if you eat, you should read this book'.⁹

In his interview with Conrad Lashley, George Ritzer (of *The McDonaldization of Society* fame)¹⁰ propounds a similar message

For me, hospitality involves the world of consumption...amongst others, I'm interested in the structure of the fast-food restaurant and the way in which it operates. As with other hospitality settings, these are intended to lead customers to behave in certain kinds of ways, and usually in the ways that are of interest of the industry...

*Most generally, I think that contemporary consumer capitalism is increasingly dependent on the consumer, increasing dependent on consumer spending lots of money ...so, there is the theme of my work. In the last decade and a half or so, the goal is to lead the consumer into what I call hyperconsumption, to consume more than they want, more than they intend, more than they need, more than they can afford. The odd thing is that at least at one level this kind of consumption is in the interest of the economy, but the question is: is it in the interest of the consumer?... Thus the concept of the inhospitable hospitality industry emerges.*¹¹

In the US, the food industry spends about \$4.5bn annually on advertising. This is money spent to encour-

a catered breakfast where sweet muffins, biscuits and the quintessential array of doughnuts of every flavour and variety of sprinkles

age people to eat more, and so is the \$50m spent lobbying in Washington DC for the food industry to have its agenda pushed.¹² In the UK, in a press release, the Food Commission (July 2003) report that

The food-industry's global advertising budget is \$40bn, a figure greater than the gross domestic product of 70 percent of the world's nations. For every \$1 spent by the World Health Organisation on preventing disease caused by western diets, more than \$500 is spent by the food industry promoting these diets. In industrialised countries, food advertising accounts for around half of all advertising broadcast during children's TV viewing time. Three-quarters of such food adverts promote high-calorie,

low-nutrition foods—so-called junk food.¹³

The effect of this hyperconsumption is well observed by Alex Massie

'Do you want to supersize that?' asked Tanya, clearly expecting an affirmative response. Working on the American adage that bigger is better, I replied 'Um why not?'—even though, at a conservative estimate, I had a dozen reasons for not expanding my double-quarter-pounder-with-cheese meal. It was lunchtime and my local McDonald's in Washington DC was packed with students from the nearby high school chattering excitedly and enthusiastically 'supersizing'. Jarvis, a 15-year-old whose 250lb body was intimately connected to the bag of burgers he was munching, told me he came here for lunch every day. Jarvis was a wobbling rebuttal of Susie Orbach's argument that 'fat is a feminist issue'.

'I just love to eat,' he said, 'man, I love to eat,' he added, in case his argument had not sunk in.¹⁴

As this article was going to press, Morgan Spurlock's critically acclaimed film *Super Size Me* was on the point of release. Amongst awards it achieved were

industry collaboration has introduced a 'National Doughnut Week', and a 'jam-squeezing machine' to put extra jam into your doughnut.

Best Director 2004 at the Sundance Film Festival and *Guardian* New Director's Award 2004 at the Edinburgh International Film Festival. In the film, director Spurlock ate only McDonald's products for 30 days, gained 27lb with consequent rises in blood pressure and cholesterol. Made for £50,000 the film has grossed over £6m in the US.

McDonald's have been taking out ads in the UK to try to refute or at least dampen the message delivered in this film. In advance of the film, in March 2004, McDonald's phased out its super-size portions from UK menus. In various company statements, drawn from their website, McDonald's state:

We offer a number of portion sizes on our menu and in a limited number of restaurants this includes Super Size. This represents less than 0.1% of total trading. We review our menus on an ongoing basis and as such have been phasing out Super Size.

In an interesting contrast of markets and segments, The Madison restaurant in the Mayfair Hotel, Curzon Street W1 offers a menu with prices listed for US and UK portion sizes.

Super Size Me is a very funny and disquieting film in Michael-Moore style, complete with wacky voiceovers and sympathetic interviews with experts. Not all of

today's obesity can be attributed to changes in eating habits, activity levels have much reduced in the last couple of decades and new sedentary pursuits such as electronic games and surfing the net, have all contributed.

In the UK, observation of all the fast food outlets and their offerings would indicate that 'eat more' certainly underpins their strategies. Our drinks industry has its happy hour and special offers which attract much criticism for encouraging binge drinking, for fast food happy hours for binge eating exist 24/7. We are rapidly adopting 'American' portions adequately demonstrated in the increase in disproportionate bodies walking (when unavoidable) on our streets and lounging in our eateries. Our frequency of eating out, whilst increasing, is still less than 50 percent of the opportunities taken by the average American.

To go the whole hog, as it were, we would have to move from our savoury breakfast and adopt the US taste for a catered breakfast where sweet muffins, biscuits and the quintessential array of doughnuts of every flavour and variety of sprinkles is present, four for now and a dozen for the road. From your observations, are UK breakfasts becoming sweeter? Drive-through counters—where KK sales flourish—are not and are unlikely to become major features of UK fast

food provision. The limited scope of KK's menu offer does not augur well for its UK development. KK's limiting menu offer does not augur well for its UK development remember the fate of another single-product offer—Sock Shop.

Let's consider the product

In a public relations coup KK achieved a full 30-minute promotion on BBC2's *Money Programme* in March 2004. Please note that their excellent PR company—Gabrielle Shaw Communications London—were responsible for the PR for Starbucks (as well as Harrods) which also achieved similar exposure in the same *Money Programme* series.

Don Henshaw, managing director of KK UK, and Howard Schultz President of Starbucks were both given an almost uncritical platform to promote their wares on non-commercial UK television and, boy, did they use their opportunities well. Henshaw explained that

A hot original KK doughnut is nothing like the traditional English doughnut. What people in the UK need is to try a KK and they will most certainly like it.

The doyen of US food critics, Lloyd Grossman, developed this theme

KK have taken a rather ordinary thing—a donut—and have given it a certain amount of cachet and smartness and trendiness and I think they have done this in a number of different ways. Firstly, by producing a donut that is actually different from all other donuts, secondly through their incredibly good packaging and branding—in the States, KK are regarded as the smart person's donut.

By doing this, they have revolutionised the donut market because they have suddenly introduced a 'high-end' donut.¹⁵

KK's assertion that 80% of their customers earn less than \$50,000 somewhat belies Grossman's smart person/high-end description. Henshall believes that KK will follow in the footsteps of designer coffee and burgers. As cappuccinos and lattes are taken up as more sophisticated coffees, KK will entirely change the UK's perception of donuts and in turn become a strong UK adopted brand.

Currently doughnut consumption in the UK takes up 25 percent of all non-bread bakery products. The UK's 7,000 high street bakeries are responding to this competition as are the multiples, with regular full-colour ads from M&S, Tesco, Bhs and Sainsburys for the qualities of their doughnuts. Through industry collaboration they have introduced a 'National Doughnut Week', and developed a 'jam-squeezing machine' to put extra jam into your doughnut. As Daniel Carr of Warings Bakery said

We're not taking this lying down, we are the best, you cannot beat our doughnuts—let them come, we are not worried.

The 'Great British Doughnut' is here to stay. Lloyd Grossman would disagree,

a high street doughnut to me looks rather stodgy and flabby and I don't really like the look of that but maybe if you grew up with it you would think 'hey, that's delicious looking'. But on the other hand the KK has a very nice glaze, a very delicate looking glaze, nice shape, nice size—it's a delicious donut—I mean, to me this is a great, donut.¹⁶

There is no doubt that Kks are best eaten warm, straight off the production line when the full doughnut theatre may be observed. These opportunities to watch the entire doughnut-making process are limited to their Harrods and Enfield outlets; at Canary Wharf the operation is purely retail.

A more analytical approach shows that KK's Chocolate Melted Crème variety contains 390 calories

and has just under a third fat with 21g—well over a quarter of a child's daily calorie requirement. This compares to 255 calories and 14.6g of fat in a 50g bar of Dairy Milk chocolate and 181 calories with 11.4g fat from a packet of Walker's Cheese and Onion crisps. Kks are handed out free in US churches to encourage children to attend.

To some—call them food police—exporting their fast food has been described as 'calorie colonialism' planned by corporate America. Nutritionists estimate that 1,700 excess calories are produced for every American every day and new overseas markets are needed. The charge of cynical market development as countries reach a certain stage in their economic development would be hard to deny. Where do you stand in this debate?

Within this first decade of the new millennium it would seem highly probable that the US might experience a similar upheaval in the social environment to that which has decimated cigarette smoking in North

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America. In the case of smoking, apparently invincible vested interests were profitably marketing unhealthy products, often with state encouragement (good for the economy) and certainly without intervention or control. Socially driven change hit the powerful liquor industry first: MADD (Mothers Against Drunk Driving) have already seriously curtailed the businesses of the American Roadhouse. Inevitably, the UK is likely follow suit.

It must be said that both the present authors, whilst not aficionados of doughnuts or donuts, sampled Kks—one at Harrods and the other in the US—buying the statutory dozen to share with friends. Neither has plans to buy again; at best—an anticlimax.

KK marketing communications

However there are many willing to speak up for KK, often of celebrity status, one of KK's major marketing/PR approaches. Lori Anderson captures KK's celebrity endorsement (and product placement) well

Bill Clinton has more than one dirty little secret. He likes two at once in the Oval Office. Interns? No boxes of Krispy Kremes—America's iconic donut—or rather

doughnut, because unlike the rest of the US KK adheres to the correct spelling of these little circles of delight. It's with 'crispy' and 'cream' that it goes all dyslexic.

John Travolta also succumbs to an addiction for these artery clogging delicacies. Madonna admits to being 'addicted'. The Sopranos are ardent fans and when Homer Simpson lets out his mantra 'Mmmm doughnuts' you can bet Maggie's bottle it's a Krispy Kreme that he has spotted. Miranda in Sex and the City suffered a similar fate. In one episode, she was attending Weight Watchers to shift her post-baby fat, but toppled off the wagon after being drawn into the green-tiled roof of the KK store from which she emerged sticky-fingered but content.¹⁷

Indeed, the latest American addict is the KK junkie.

Apart from seeking celebrity endorsement, like all US fast-food operators, KK seeks to maximise its presence in schools. Basketball matches and other competitions are sponsored with KK also providing the sportswear with the company logo.

In 2003, the UK's Chief Medical Officer, Liam Donaldson, stated the 'case for adopting the precautionary principle for the marketing of food to children' that

*regulating the promotion of foods through schools and other approaches, to discourage the consumption of products high in fat and added sugars, are both worthy of consideration.*¹⁸

A coalition of 85 national organisations is calling for legislation to protect children from the promotion of foods that contribute to an unhealthy diet. As Marion Nestle argues

Efforts to market food products directly to children deserve close scrutiny. Food companies spend enormous amounts of money and creative energy to entice children to buy their product or to demand that their parents do

*so... the blatant exploitation by food companies of even the youngest children raises questions about the degree to which society at large needs to be responsible for protecting children's health in a free-market economy.*¹⁹



KK opened its first UK stand-alone store in Enfield, London in May 2004. The well-known picture window allows doughnut fans to watch the entire doughnut-making process (above). To tell doughnut lovers when Original Glazed are being made, the Enfield store also features a 'Hot Doughnuts Now' sign and the UK's very first KK drive-thru.

Jonathan Banks/Vismidia

introduce their product. They give them to people who are in a position to influence others—reporters, politicians and community leaders. 'Give aways', high-profile PR, much logo-ed merchandising and, more insidiously, various promotions to children form the mainstay of their marketing communication methods, after all, to date, they have worked in the US.

In conclusion

Shakespeare's oft-quoted lines from *Julius Caesar*, help in our consideration of factors for and against KK's

foray into the UK market

There is a tide in the affairs of men. Which, taken at the flood, leads onto fortune;

Omitted, all the voyage of their life is bound in shallows and in miseries.

On such a full sea are we now afloat, and we must take the current when it serves

*Or lose our ventures.*²⁰

It is our judgement that KK has missed the flood and will, in all probability lose this venture; for support we call up the following issues:

1 Restrictions to be placed on 'in school' promotions

Indeed, this week (06.09.04), Education Secretary Charles Clarke MP launched a counter-promotion under the title of a Healthy Living Blueprint for Schools—covering meal choices and the promise of a welcome curriculum link between nutrition and diet.

2 The public health challenge of obesity.

Already these issues are starting to erode profitability and limit expansion in its own US backyard.

3 KK's rather singular offering

Krispy Kremes are designed to be eaten hot and fresh, so unless traffic is substantial, many customers will buy them at their least appealing—cold; when their advantages over a baker's doughnut are much less evident.

With only one product (and coffee) on offer, they do not have a restaurant's flexibility to alter the menu to meet changes in taste. A low-fat, low-carb doughnut seems a contradiction in terms.

4 Banker's warning

Over the last two years there have been warnings from UBS Warburg and JP Morgan that some of the top-spending food advertisers (including Hershey, McDonalds, Tate & Lyle, Cadburys, Pepsi, Coco-Cola, Heinz and Nestle) may be contributing to an obesity-promoting environment. The companies were told that there may be risk to their share prices because their profits rely on selling fatty and sugary foods, which are likely to be the subject of future legislation.²²

5 Action against advertising

In her 'Eat More' Message for a Fattened America in The New York Times (Feb 19 2002) Mary Duenwald calls for much more government action in obesity prevention starting with the £30 billion worth of food marketing.

6 Downturn in profitability back home

'Is The Glaze Off Krispy Kreme?' 'Krispy Kreme Looking Soggy' are typical of headlines now in the US from CBS News (May 2004) and CNN Money (August 2004) respectively. CBS, like many other commentators, attributes the KK 40 percent profits downturn in

2003–04, and subsequent downsizing, to the low-carb effect of the popular Atkins Diet.

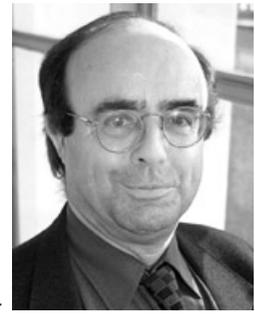
They also suggest that the novelty value of KK is wearing off and it is suffering from 'waning fan appeal'. In their more recent report, CNN raises questions about the comparable sales figures, pointing out that while the company can pull off impressive sales at new stores, sales at its older stores are sagging. There are closures and a reduced opening programme. Selling more to Wal-Mart both reduces margins and heralds a decline in purchases in other stores.

In conclusion, the evidence presented would suggest that the tide of affairs is running against KK in the UK, most certainly for its planned multi-branch franchise operation. In the 1990s, their UK MD Don Henshall very successfully launched the Diesel clothing range into the UK. In different circumstances and, a less hostile and competitive environment, KK may have achieved success; it is difficult to determine how they can so re-engineer their product to match today's needs.

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Send the word; send the word over there –
That the Yanks are coming
The Yanks are coming
The drums rum-tumming
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Patrick Kidd also advised readers not to eat the provided croutons and to use only half of the dressings provided. As a one-off, this experiment carries little weight. However, since introduction of their salads and 'healthy options' McDonald's results have much improved. In the second quarter of 2004, after HOs were introduced in March, total sales at their 30,000 outlets rose by 10 percent. On 22 July 2004, the company reported a 25 percent increase in value in the value of its shares, the biggest jump since 1987—which is credited to the new 'healthy' lines. KK have been discussing developing a low-carb low-fat doughnut for some time. Patrick Kidd 'McDieting but not Lovin' it' *The Times Body and Soul Section* (14.08.04).
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