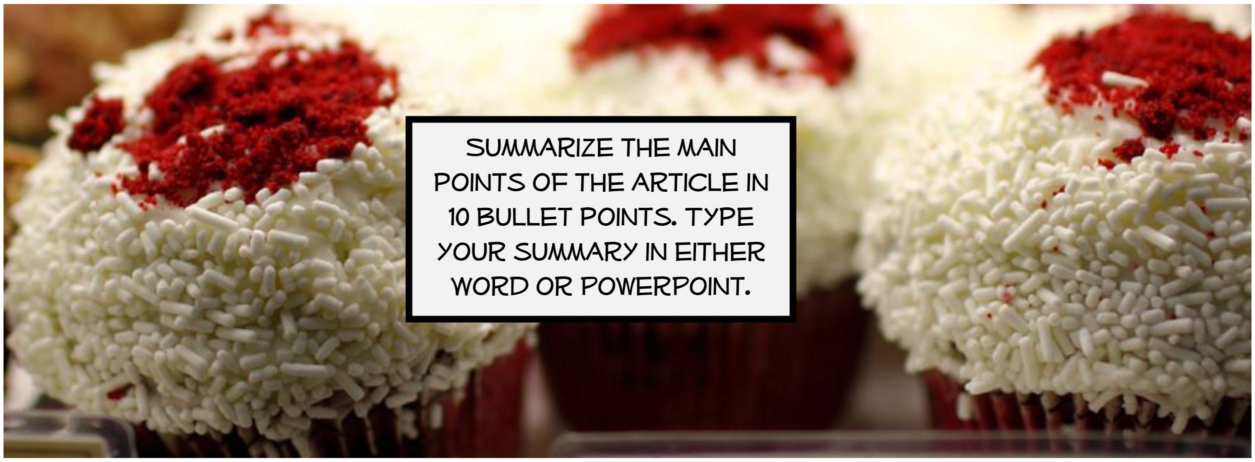
Why Crumbs Completely Fell Apart

It wasn't that Americans lost their love for cupcakes. Here's what really brought the dessert chain down.



You could say Crumbs Bake Shop had as many problems as the number of stores that it's closing. "You could see it right away that their cost of goods sold--the food, the bakery, and all of the raw ingredient costs--was high," says John Gordon, principal at Pacific Management Consulting Group, a restaurant-industry analysis firm. "They expanded too quickly," he says, and "never should have gone public." Crumbs will soon be forgotten as it shuts all 48 of its stores in 10 states. But entrepreneurs should note its lessons, because while cupcakes will live on in some form or another, the fad dessert cycle is getting shorter and shorter.

Too Big, Too Fast

Cupcakes blew up in the early 2000s when Carrie dished on her latest crush to Miranda at Magnolia Bakery. "Sex and the City was the cultural touchstone and really identified it in a whole new way," says author David Sax. "It took it from being something for kids to something sexy and allowed it to grow." Americans also reached for comfort food during the recession, giving husband-and-wife entrepreneurs Jason and Mia Bauer the perfect opportunity to open the first Crumbs bakery in 2003 on Manhattan's Upper West Side.

After being acquired by a private equity firm, Crumbs went public in June 2011. It wasn't long before the brand dominated the high-end cupcake trend. Gordon says Crumbs "took advantage of a period of time when a lot of restaurants were being acquired and there was a shortage of restaurant stocks. They felt there was some upside in the market. And they felt that the timing was right." But going public was the last thing the company needed. "It's very distracting and time-consuming," says Kevin Burke, managing director of Trinity Capital, an investment banking firm familiar with the restaurant industry. Also, going public is risky. At the time, Crumbs had 34 stores in six states, hardly the mark of a seasoned business. The company should have slowly expanded instead, managing stores in different geographies to see "how [the] concept [could] take a punch," says Burke.

Instead, the company expanded too quickly into high-profile neighborhoods like Malibu, California, and Midtown Manhattan. Its bottom line suffered and in 2013, the company posted a loss of $18.2 million, in addition to the $10.3 million loss it reported in 2012, according to annual filings with the SEC. On top of that, Crumbs ran a commissary bakery and delivered its products to individual stores. The cost of equipment and ingredients was high. "Inherently, product costs should be in the 30 percent zone," says Gordon. Crumbs' was almost 43 percent.

A Narrow Focus

Above all, Crumbs' biggest folly was its lack of a broader menu. Who needs a personal cake when you can scarf a $13 burger at lunch or dinner? Suddenly it felt too indulgent. Cupcakes also didn't ensure a steady flow of customers, day or night. "The lack of frequency was a problem," says Burke. Cupcakes aren't a breakfast or dinner item. "The fact that they were so focused on cupcakes versus on being more of a bakery [like Magnolia]" hurt them in the end, says Darren Tristano, a food industry analyst. "The new strategy today is to have a broader menu but be able to do one thing really well." Years ago, McDonald's was known for selling burgers, fries, and soft drinks. It didn't do breakfast or yogurt parfaits. But over time, it expanded. Had Crumbs done the same earlier--the company ventured into soups and sandwiches and made a last-ditch attempt at bringing cronuts to B.J.'s Wholesale Clubs--perhaps customers would have seen it differently. "There was only so much they could do, especially with that one basic product line," Sax says.