

DOMINO'S

The Turnaround

How DomiNO's Became Domi-YES!

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Econ 106T, Lecture 2, Lab 2A

After the end of Quarter 1 of 2010, international pizza restaurant chain Domino's Pizza experienced an astronomical turnaround, having one of the largest sales growths in the history of fast-food restaurants. The company completely revamped its brand from being a chain serving "mediocre" food to one that was actually well-received by consumers and critics alike. This huge turnaround was a result of an extensive effort to overhaul both the company's products and its processes by introducing a new recipe and drastically improving its online and mobile technology infrastructure. Today, Domino's is the second largest pizza restaurant chain in the world and its online service is the 4th largest e-tailer in the country. Two major questions arise: How exactly were they able to achieve such a successful and unprecedented turnaround? And what should they do moving forward to sustain and improve upon such growth?

HISTORY of DOMINO'S

Pizza was brought to America in the 1800's by Italian immigrants and rose to popularity in the 1950's as Italian-American celebrities, such as Frank Sinatra, began speaking highly of the "pie".^{1 2} It wasn't long after this rise that the Domino's chain was created. In the year 1960, two brothers Tom and James Monaghan scraped together \$500 to buy a small pizzeria in Michigan called Dominick's Pizza. After only 8 months, James grew tired of the business and sold his shares to his brother to buy a second hand Volkswagen car. Tom took this opportunity to revitalize the store and, in addition to making decorative changes to the pizza joint, enacted changes to improve its profitability.³ From the very start, reliance on delivery and a focus on more efficient, streamlined processes (often at the sake of quality or customer satisfaction) were crucial aspects of the company's business model. Because the shop itself was very small and had little room for sit-down diners, Tom hired laid-off factory workers and offered them commission to drive and deliver pizzas to nearby towns.⁴ The early focus on deliveries helped spread the brand quickly, and was a critical reason for Domino's quick success as it allowed the shop to serve a greater volume of customers than other pizzerias that did not have delivery service. Additionally, Tom would always look for ways to improve profits by streamlining practices. For example, he would often drop items from the menu spontaneously if he was shorthanded at the shop. Though this would often upset customers, he found that volume and profits increased every time he did this, which led to Domino's focus on a simpler, more "traditional" menu.⁵

As operations and popularity increased for the shop, its original owner decided to retain the name "DomiNick's". Unable to come up with anything, Tom Monaghan resorted to posting a YellowPages ad asking for new name suggestions. A driver named Jim Kennedy happened to see the ad and submitted his suggestion,

¹ <http://inventors.about.com/od/foodrelatedinventions/a/pizza.htm>, accessed 11/26/11

² <http://whatscookingamerica.net/History/Pizza/PizzaHistory.htm>, accessed 11/26/11

³ <http://lifestyle.iloveindia.com/lounge/history-of-dominos-pizza-1915.html>, accessed 11/26/11

⁴ <http://www.fundinguniverse.com/company-histories/Dominos-Inc-Company-History.html>, accessed 11/26/11

⁵ Monaghan, Tom, "Domino's Pizza," *Fortune Small Business*, September 2003, p. 58.

“Domino’s Pizza”, and the rest, as they say, is history. The company incorporated under its new name in 1965.⁶ With continued expansion and growth, Domino’s swiftly became the second-largest player in the market (behind Pizza Hut).⁷ By the year 2000, the company had over 6,500 stores worldwide (most of which were franchises) and had sales of over \$3 billion.⁸ The company became widely known for being innovators in the pizza restaurant space, developing new processes to increase efficiency and lower costs such as the *belt driven pizza oven*, which soon became an industry standard. Additionally, it began an extensive ad campaign in the early 1970’s that touted its ability to deliver a pizza in “**30 minutes or less**”, which became widely popular amongst fans of fast-food delivery services.⁹ In 2008, it launched its **Pizza Tracker** service, an online system that allowed customers to track the status of their pizza in real-time. With so much growth and innovation, it was thus surprising that Domino’s stock actually reached its all-time low in 2008, at a measly \$4 a share.¹⁰ It was a harsh reminder that domestic demand was weak and that the company would need a drastic change to bring it back to prominence.

MEDIOCRE COMPARED TO COMPETITORS

If there was one thing Domino’s was good at, it was delivering pizza at break-neck pace- the brand was widely known for being able to beat its competitors by delivering pizza extremely quickly with a no-hassle online service. In fact, it had the biggest Web ordering portal in the pizza industry in 2009 (20% of its orders came from online), even when its total market share in the pizza industry was significantly lower than that of Pizza Hut.¹¹ However, it was able to have such a quick and easy service not necessarily because it was more efficient, but mostly because its pizzas were of extremely poor quality. The majority of its ingredients were frozen, canned, and pre-made in order to cut down on costs, and thus it was easy to assemble a pizza in record time, and this poor quality was not lost on its customers. In 2009, Domino’s was tied for dead-last (with Chuck-E-Cheese’s) in a national pizza test-taste.¹² Many people often referred to Domino’s pizza as being “flavorless” and having the consistency and taste of cardboard. To make matters worse, various controversies arose that further ingrained in consumers the poor quality of the chain, such as a YouTube video posted in 2008 that showed Domino’s employees abusing pizzas before sending them out to delivery.¹³ Customers were losing faith in the brand

⁶ Monaghan, Tom, with Robert Anderson, *Pizza Tiger*, New York: Random House, 1986.

⁷ <http://www.fundinguniverse.com/company-histories/Dominos-Inc-Company-History.html>

⁸ http://www.dominospizza.be/en/marque_histoire.php

⁹ http://www.recipepizza.com/the_history_of_dominos_pizza.htm

¹⁰ <http://www.wyattresearch.com/article/15087>

¹¹ <http://www.annarbor.com/business-review/dominos-pizza-reshaping-online-ordering-system-hiring-ann-arbor-software-employees/>

¹² <http://www.delish.com/food/recalls-reviews/chuck-e-cheese-feels-the-dominos-effect-and-announces-pizza-revamp-of-its-own>

¹³ <http://www.telegraph.co.uk/news/worldnews/northamerica/usa/5164216/Dominos-Pizza-defends-reputation-on-Twitter-after-YouTube-video-shows-employees-abusing-food.html>

quickly and its sales in the United States were rapidly declining. The fact that the chain was also facing increasingly tight competition also didn't help matters.

MAJOR CHAINS

When it comes to competitors, Domino's biggest ones are similar pizza restaurant chains that serve fast-food and have takeout/delivery services. Pizza Hut, a pizza restaurant also started by two brothers in the 1950's, is now the largest pizza franchise in the world.¹⁴ It is a subsidiary of Yum! Brands, Inc. (the world's largest restaurant company) and has over 11,600 restaurants/franchisees worldwide (over 6,000 of which are located in the United States). At the time, though Domino's was the leader in the delivery market, it was widely recognized that Pizza Hut had by far the better-tasting pizza. Additionally, Pizza Hut had done a better job of utilizing social media (it was an early mover in integrating its services with Facebook, Twitter, and Youtube and often advertised through bloggers and viral videos) and mobile services (it was the first to launch an iPhone application in August 2009).¹⁵ If Domino's wanted to increase its success, it would certainly have to deal with the juggernaut that is Pizza Hut. Other chains, such as Papa John's and Little Caesar's, each make up 4% of the pizza store market in the U.S. (Pizza Hut makes up 11% and Domino's makes up 7%).¹⁶ Though Domino's is the second largest chain in the country, it should still be wary of the smaller players that may have better-tasting menus and more goodwill amongst consumers.

LOCAL SHOPS AND SUBSTITUTES

59% of the national pizza store market is made up of independent/local stores.¹⁶ Pizza is certainly a national favorite, but mediocre, cardboard-tasting pizza is not. Most people would strongly prefer the taste of a fresh, oven-baked pizza made from a local shop over one made of highly processed ingredients. Thus, Domino's will always lose to local stores when it comes to taste, and therefore those stores (or the concept of eating at local shops) are major competitors to the brand. Domino's advantages over such shops are its prices and convenience. In order to continue being a market leader, the company would have to make sure that it was priced competitively and be in tune with customers' needs. Additionally, the country has also been on a large push for a "healthier" lifestyle, and so the fast food industry in general must always be perceptive of this shift in attitude. As a result, many chains now offer healthier options on their menu, and made a point to emphasize the use of "fresh" or "organic" ingredients.

PIZZA TURNAROUND

¹⁴ <http://www.fundinguniverse.com/company-histories/Pizza-Hut-Inc-Company-History.html>

¹⁵ <http://adage.com/article/mediaworks/pizza-hut-domino-s-media-strategy/139027/>

¹⁶ <http://www.franchisedirect.com/foodfranchises/pizzafranchises/pizzafranchiseindustryreport2010/80/275>

With rising customer dissatisfaction evident not only through surveys and word-of-mouth but also in sales numbers (3rd Quarter revenues dropped 6.5% in 2009, missing analyst estimates, and its shares posted a steeper-than-expected decline of 8%¹⁷), Domino's hired a new CEO, J. Patrick Doyle, in 2010 to help the company undergo a massive overhaul of both its products and processes.¹⁸ Though it was an incredibly risky move, especially in the eyes of marketing pundits of the time, Doyle's decision to completely revamp the company's image proved highly successful. The company spent 18 months and millions of dollars to create a completely new recipe for its pizzas, update its online ordering system to become more efficient and user-friendly, and roll out a brutally honest and interactive ad campaign that actively utilized the internet and technology.¹⁹ These significant changes proved to be real game-changers, and helped to not only increase sales but also re-energize the brand in the minds of consumers across the country.

NEW RECIPE

Doyle knew that Domino's biggest weakness was the taste of its pizzas. The core recipe had not changed for decades and consumers were starting to leave the chain for other brands that provided fresher, healthier, and better-tasting pizzas. "This is not a slight tweak. We changed everything on our pizza from the crust up," said Domino's USA President J. Patrick Doyle. "We changed the crust, we changed the sauce, we changed the cheese."²⁰ The company tested dozens of cheeses, 15 sauces and 50 crust-seasoning blends over two years in order to arrive at what they determined to be a recipe that was worthy of the revamped brand.²¹ Domino's put these new products to the test by submitting their pizzas to an independent, blind taste test of nearly 1,800 random pizza consumers from eight U.S. markets. The company came out on top, beating its major competitors Papa John's and Pizza Hut by a wide margin.²²

REVAMPED ONLINE SYSTEM

In addition to its new recipe, Domino's also made an effort to upgrade the one aspect it was already good at – its delivery service. Though the pizza chain was already popular for its fast and easy delivery options and was already a leader in the space, Doyle knew that it still needed to stay ahead of the curve and create something bold and new that would make it difficult for competitors to mimic quickly. In December of 2009, Domino's hired 30 tech workers to reconfigure its online ordering system and restructure its entire information

¹⁷ <http://www.reuters.com/article/2009/10/13/dominos-idUSN1316576920091013>

¹⁸ http://www.usatoday.com/money/industries/food/2010-05-05-dominos05_ST_N.htm?csp=obinsite

¹⁹ http://www.usatoday.com/money/companies/earnings/2010-03-02-dominos_N.htm?csp=obinsite

²⁰ <http://slice.seriousseats.com/archives/2009/12/dominos-pizza-changes-core-recipe-garlic-parsley-crust-sweeter-sauce-provolone-cheese.html>

²¹ http://www.usatoday.com/money/industries/food/2009-12-16-dominos16_ST_N.htm

²² <http://phx.corporate-ir.net/phoenix.zhtml?c=135383&p=irol-newsArticle&ID=1381948&highlight=>

technology operation.²³ The company, which used to outsource most of its IT work, decided to change things up and move operations in-house by conducting its own software engineering and consolidating various data and Web operations within its own operation. “We thought the importance to our business and the criticality of the technology was too great to continue to outsource it,” Domino’s Chief Information Officer Christopher McGlothlin said. The mindset here is that online customers are often more loyal and often order more items per transaction, so they are a very valuable part of the business. Additionally, focusing on online consumers helps to combat the industry’s struggle to increase foot traffic in the poor economy. The new system included a faster, more user-friendly interface and allowed more options for order customization (consumers could essentially “make their own pizzas” from a variety of options). It also had an advanced tracking system that allowed customers to see every step of the pizza-making and delivery process, right down to seeing the name of the person who was putting their pizza in the oven.

“WE KNOW OUR PIZZA SUCKED”

Perhaps the most crucial aspect to all of the changes was the way Domino’s decided to handle its marketing. It could have easily gone the way of many other companies and merely pushed a basic advertising campaign that promoted “new and improved” pizzas. However, the team decided not to spin the matter around and, instead of just promoting its new pizzas, it also apologized profusely to its customers and admitted that its old pizzas were awful.²⁴ This was certainly a risky move as it involved the company admitting all of its past failures in a blunt manner, something most companies rarely ever do. Starting in early 2010, alongside the rollout of the new and improved recipe, Domino’s had television ads that showed customers discussing how they felt the pizza was “devoid of flavor.”²⁵ Along with the television ads, Domino’s actively tried to engage customers by creating a website called PizzaTurnaround.com that documented customers’ responses to their new pizzas. Prominent food bloggers were encouraged to take live videos of themselves tasting the pizzas and providing their honest, unedited comments, which were then shown directly on the website.²⁶ Customers were also encouraged to take pictures of their pizzas right when they ordered them, and these photos were then placed on the website. Domino’s proudly claimed that all images of their pizzas were “unedited and un-Photoshopped”, unlike that of their competitors. As such, the company was able to successfully utilize online social media, often a tricky tool for most companies as the online crowd can be brutally honest due to ease of accessibility and the ability to remain anonymous, to further improve their brand amongst casual fast-food fans and major foodies alike.

²³ <http://www.annarbor.com/business-review/dominos-pizza-reshaping-online-ordering-system-hiring-ann-arbor-software-employees/>

²⁴ <http://www2.qsrmagazine.com/articles/features/144/dominos-4.phtml>

²⁵ <http://finance.yahoo.com/blogs/daily-ticker/domino-delivered-tasty-turnaround-151339457.html>

²⁶ <http://www.pizzaturnaround.com/>

SEEING RESULTS

Domino's risky plan turned out to be a very smart move. At the end Quarter 1 of 2010, a few months after the launch of its new campaign, the chain posted sales numbers that experienced a huge 14.3% increase over the last quarter, one of the highest-ever revenue jumps for a fast-food chain.²⁷ In addition, the company's stock rose a whopping 130% from December 2009 to December 2010, and recently hit a high of \$32.50 per share on November 16, 2011, a significant improvement over its measly \$4.00 per share price in 2008.²⁸ The company's domestic same store sales grew 6.3% during the fourth quarter of 2010 versus the year-ago period, and 9.9% for the full year, due to increased store traffic and positive consumer response to its improved pizza and processes.²⁹ Overall, the company posted total revenues of \$1.6 billion in 2010 (up 11.9% from \$1.4 billion in 2009).³⁰ In addition to its improvement in the overall fast-food market, Domino's was also seeing huge gains in its dominance within the online sector. As of September 2010, the company is the **4th-largest e-tailer in the market**, just behind Amazon, Staples, and Office Depot.³¹ The fact that a pizza franchise has such dominance over the ecommerce space, especially when up against heavy-weights that deal primarily with technology and durable goods, is both shocking and impressive. The Domino's Pizza Tracker certainly played a big role in helping the company achieve this status, as it boosted its online ordering profits by 23% since its inception. Domino's rapid improvement stunned industry experts, who claimed that especially due to the fickleness of consumers, it was extremely rare for a well-known brand to revamp its image and operations so successfully in such a short amount of time. It is now clear that the company made the right move in revitalizing its recipe, brand, and operations – however, one great year of enormous growth does not immediately lead to long-term success. The company is still the #2 player in the market, and must try to find ways to not only sustain its growth, but also continue expanding in the hopes of toppling the market leader.

STRATEGIC NEXT STEPS

Even though Domino's was able to survive the economic downturn through a revamped marketing campaign and combat the problem of decreased foot traffic in national pizza restaurants by bringing their customers online, it is still the second-largest player in the market. For the fiscal year 2010, Pizza Hut boasted over \$10 billion in worldwide sales (around \$5.4 billion of which came from the United States)³² whereas Domino's had \$6.2 billion sales worldwide (around \$3.3 billion of which were domestic).³³ Thus, the company must be careful to not only focus on keeping up the momentum from the recent spike in sales, but to also find ways to grow and

²⁷ <http://www2.qsrmagazine.com/articles/features/144/dominos-1.phtml>

²⁸ <http://seekingalpha.com/article/308756-after-the-turnaround-for-domino-s-pizza-too-late-to-buy-shares>

²⁹ <http://phx.corporate-ir.net/phoenix.zhtml?c=135383&p=irol-newsArticle&ID=1534134&highlight=>

³⁰ <http://investing.businessweek.com/research/stocks/earnings/earnings.asp?ticker=DPZ:US>

³¹ <http://blog.cmbinfo.com/bid/46079/Customer-Experience-Makes-Domino-s-4th-Largest-e-tailer>

³² <http://www.yum.com/annualreport/>

³³ <http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9ODY2NDF8Q2hpbGRJRD0tMXxUeXBIPtM=&t=1>

expand the company. When considering its options moving forward, there appear to be three primary opportunities the company can capitalize on to further increase sales: continued improvement and innovation in its products, further international expansion, or an emphasis on enhancing its online and mobile experience.

PRODUCT GROWTH:

A primary reason for Domino's major turnaround was its focus on listening to its customers and improving its products dramatically. Despite the improvements, the chain has substantial competition when it comes to taste. Domino's is still not considered the clear leader in quality when it comes to its pizzas, and it still has to compete with local shops that have a greater focus on producing fresh, homemade-tasting products. Thus, Domino's could try to continue improving its recipes and product lines to try and compete in this market by becoming a clear leader when it comes to quality. However, this could greatly ramp up costs, and a significantly better product would most likely raise prices which would make it difficult for Domino's to compete with the other fast food pizza chains. This option would only have great upside if the company is able to strike the perfect balance between having considerably better tasting food without having to raise prices notably - a very difficult task.

INTERNATIONAL EXPANSION:

Though the domestic market seems to be shrinking, the international market is growing strong. As is the case with many established brands in the country that have been around for decades, Domino's has saturated the U.S. market.³⁴ Though the home market is stagnant, the global one is thriving. In Quarter 1 of 2011, Domino's reported that same-store sales in the U.S. fell 1.4 percent compared to the year-before quarter. However, international same-store sales actually grew 8.3% in the first quarter, which would be the 69th consecutive quarter that same-store sales have grown in the international division. The company currently has over 4,000 stores worldwide, while Pizza Hut has just shy of 5,900 stores worldwide.³⁵ Research has indicated that the international market is growing for fast food, and particularly pizza in general, primarily due to rising incomes abroad, rising appetites for pizza, and a falling dollar with respect to the U.S. Thus, continued international expansion would be a great way to increase Domino's sales and presence worldwide. With the recent spike in revenues, the company could use its excess cash flows to invest in entering emerging markets that would be receptive to quick and easy fast food, particularly ones that already have a steady stream of online usage amongst its residents. They could also increase incentives for franchisees to open new stores by decreasing the franchise fees, or increasing revenue-sharing percentages in the franchisee's favor.

INCREASED ONLINE PRESENCE:

³⁴ <http://finance.yahoo.com/blogs/daily-ticker/domino-delivered-tasty-turnaround-151339457.html>

³⁵ <http://www.yum.com/annualreport/>

As the clear market leader when it comes to sales online, Domino's is in a prime position to improve upon its already advanced and efficient IT infrastructure to meet growing consumer demand in the tech space. On October 8, 2011, the company reached its record day of sales online, roping in more than \$1million in sales through its online portals alone.³⁶ Some 13% of those sales were taken from ordering applications that were available through mobile phones and tablets. It is very clear that today's society is rapidly moving towards technological expansion, and ecommerce is will most likely be where the majority of sales occur in the future. Thus, Domino's should anticipate this transition amongst consumers and try to continue improving its technology to get and engage more of their customers. Possible ways to do this can include focusing more on the mobile application to send push-updates of advertisements and coupons to people with the app installed. Domino's Pizza could also integrate Facebook Connect, which would make consumers' purchases of pizza online part of their news feed on their Facebook profiles. This could encourage friends of those consumers to also order Domino's. Improving the Pizza Tracker system even further to increase efficiency and user acquisition could propel online sales to be a bigger percentage of overall company sales.

RECOMMENDATION

Instead of choosing just one aspect to improve upon, the ideal recommendation would include a combination of all three options. Of course Domino's should continue to make sure its products are of high quality and align well with customers' tastes. Additionally, they should continue expanding in international markets by pushing their advanced technology into regions that might not have a lot of those options available. For example, Domino's holds a 53% online-ordering market share for the pizza category in Australia, and a "big reason for that is [their] world-class IT capability".³⁷ Online ordering has been a huge success in Domino's international markets, including India, Mexico, and the United Kingdom (the online-ordering and real-time data-reporting capabilities of the new POS system was central to the growth of the brand in the UK). Thus, Domino's definitive advantage over its competitors, primarily Pizza Hut, is in its advanced IT capability that is more improved than others'. By pushing this technology onto emerging markets overseas, the company will be in a prime position to grow rapidly over the next few years and gain greater market share, with the potential of catching up to Pizza Hut and beyond.

³⁶ <http://www.computerweekly.com/news/2240106418/Dominos-Pizza-enhances-IT-systems-and-delivers-1m-online-sales-in-a-day>

³⁷ <http://www.nrn.com/article/domino%E2%80%99s-international-business-drive-growth>