**Domino’s Pizza, Inc. – 2013**

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1. **Case Abstract**

Domino’s Pizza, Inc. is the second largest pizza chain in the world with operations in over 70 nations and over 10,200 stores as of March 2013. Domino’s trails only Yum Brand’s Pizza Hut in store numbers and global presence. Domino’s specializes in takeout and delivery of pizza and more recently chicken wings and sub sandwiches, but so far does not offer a dine in experience for customers. Lacking seating inside greatly reduces margins and startup costs for franchisees and allows products to be sold cheaper to more price-conscious buyers. Domino’s operates under three business segments: 1) Domestic Stores, 2) Domestic Supply Chain, and 3) International. The Domestic Supply Chain produces and/or supplies over 99 percent of all franchisee stores and accounts for over half of company- wide revenue. Founded in 1960, Domino’s is headquartered in Ann Arbor, Michigan.

1. **Vision Statement** (taken from stated mission)

To be the best pizza delivery company in the world.

1. **Mission Statement** (proposed)

At Domino’s, we are committed to providing our customers (1) around the world (3) an affordable, consistently high quality pizza, subs and chicken wings (2), with timely delivery each and every time they order (5,6,7). Our new PULSE computerized system (4) allows orders to be more streamline and accurate. The system also allows for nutritional labels to be printed and provides accurate driving directions for delivery drivers. With our new apps for mobile phones, and website platform, customers can ensure a quick and easy ordering process. We believe good ethics is good business, and strive to sponsor programs within the communities we serve (8). We hire only dedicated employees and selectively screen and train all potential franchisees (9).

1. Customers
2. Products or services
3. Markets
4. Technology
5. Concern for survival, growth, and profitability
6. Philosophy
7. Self-concept
8. Concern for public image
9. Concern for employees
10. **External Audit**

**Opportunities**

1. Domino’s is only serving approximately 50 percent of the international market they could possibly be serving.
2. There is a steadily growing international appetite for American fast food, and an improving global economy. Markets such as China, Russia, India, and Brazil are still relatively untapped.
3. Many customers are looking for healthier fast food options.
4. College campuses and shopping malls are often frequented by young people.
5. Over 16 percent of residents of the USA identify themselves as Hispanic.
6. Many customers in today’s climate are willing to tolerate a degree of inconvenience if they can get a better deal.
7. Small margins in the restaurant business are the reason why so many mom-and-pops fail.
8. The current landscape in the Quick Service Restaurant (QSR) business is a bimodal population distribution with a large population of bargain-minded customers seeking deals on cheap fast food options, and another population of more affluent consumers targeting middle-to-higher end restaurants.
9. Domestic stores voted to increase their advertising revenue contribution to 5.5 percent in 2011.

**Threats**

1. Governments potentially forcing all restaurants to label all nutrition information on the menu at the point of sale.
2. Trademark and patent protection laws are not as sophisticated in developing countries.
3. YUM Brands (parent company of Pizza Hut) revenues are over 60 percent greater than Domino’s.
4. Little Caesars was listed as the fastest growing pizza chain in 2010, with revenues up 13.6 percent over 2009, followed by Pizza Hut’s 8 percent increase and Domino’s 7.2 percent increase.
5. Many restaurants such as Wendy’s, Subway, and even Pizza Hut offer customers low calorie options on the menu.
6. Currently, there are over 925,000 fast food service locations in the USA or one for about every 330 people.
7. Barriers to entry are relatively low for the restaurant industry, but rivalry (competitiveness) among firms is exceptionally high.
8. In the QSR industry, the bargaining power of consumers is quite powerful, availability of restaurant options in most places are abundant, and consequently there is intense price competitiveness among rival firms.
9. Wild fluctuations in commodity prices, especially prices in dairy products since they cannot be locked in for long periods of time, are particularly problematic for the industry.
10. Labor is the second greatest expense in the fast food industry.

**Competitive Profile Matrix**



Domino’s score of 2.32 reveals a below average company with respect to Pizza Hut and Papa John’s. Over $1.5 billion in long term debt severely impacts Domino’s stockholders’ equity and financial profit.

**EFE Matrix**





Domino’s received an above average EFE score of 2.75 which can be attributed largely to the excellent job Domino’s has done with international expansion. Domino’s still lags competitors by not offering a healthy line of menu items.

**E. Internal Audit**

**Strengths**

1. Domino’s reached $1 billion in USA online sales in 2012 from its website, IPhone and Android apps alone, accounting for over 60% of all sales.
2. Domino’s operates stores in 70 different nations.
3. International stores grew 30% from 2009 to 2012 to total 4,835 at year end 2012.
4. Backward integrated supply chain provides over 99% of supplies for franchisee stores.
5. Domino’s enjoys large economies of scale and great brand recognition.
6. Domino’s is exclusively a delivery/take out business, reducing overhead by not offering dine in space.
7. PULSE touch screen ordering system allows for increased order accuracy and provides driving directions to drivers.
8. Domino’s Pizza markets their pizzas as having gluten-free crust.
9. Domino’s recently introduced new Artisan pizzas, and new recipes (higher quality products) for their crust, sauce and cheeses.

**Weaknesses**

1. While many fast food restaurants have added healthy options, Domino’s offers little with respect to healthy food options such as salads or fruit.
2. Domino’s does not produce a sustainability report or have a sustainability statement on their website.
3. Domino’s reported over $1.3 billion in negative stockholders’ equity at yearend 2012.
4. Domino’s is a relatively large company to operate under a functional type structure.
5. One large slice of hand- tossed, pepperoni pizza contains 300 calories and 12 grams of fat, and there are 8 slices in a pizza.
6. No dine in option.
7. Domino’s suffered a quality image before the launch of the new Artisan pizzas, and there is some belief there remains a residual quality problem.

**Financial Ratio Analysis**

|  |  |  |  |
| --- | --- | --- | --- |
| **Profit Margin Percent** | **Domino’s** | **Industry** | **S&P 500** |
| Gross Margin | 29.87 | 31.98 | 37.55 |
| Pre-Tax Margin | 10.79 | 17.46 | 16.89 |
| Net Profit Margin | 6.7 | 11.88 | 12.42 |
|  |  |  |  |
| **Liquidity Ratios** |  |  |  |
| Debt/Equity Ratio | NA | 0.7 | 0.97 |
| Current Ratio | 1.3 | 0.7 | 1.2 |
| Quick Ratio | 1.2 | 0.6 | 0.8 |
|  |  |  |  |
| **Profitability Ratios** |  |  |  |
| Return On Equity | NA | 36.7 | 20.88 |
| Return On Assets | 23.4 | 13.4 | 7.7 |
| Return On Capital | 42.2 | 16.3 | 10.2 |
|  |  |  |  |
| **Efficiency Ratios** |  |  |  |
| Income/Employee | 11,239 | 16,959 | 129,395 |
| Revenue/Employee | 167,844 | 138,523 | 1.05 Mil |
| Receivable Turnover | 18.5 | 49.3 | 14.2 |
| Inventory Turnover | 38.1 | 93 | 13.5 |
| Asset Turnover | 3.5 | 1.1 | 0.8 |

Domino’s is a healthy company based on most of the financial ratios. However, $1.5 billion in long-term debt weighs heavily.

**Net Worth Analysis** (in millions)





Methods 3 and 4 are likely the best representation of company worth. Like Domino’s, Papa John’s is also heavily leveraged with long term debt.

**IFE Matrix**





With a score of 2.88, Domino’s is doing an above average job based on internal factors. One area of improvement would be to develop a healthy line of menu items.

**F. SWOT**

**SO Strategies**

1. Add 500 new stores over the next 3 years in China, India, and Brazil (S2, S3, O1, O2).
2. Add 500 new stores over the next 3 years in traditional European and Middle Eastern Markets (S2, S3, O1).
3. Increase advertising expenses from $40M to match Pizza Hut’s $75M over the next 3 years to market the new Artisan pizzas and other new products (S9, O9).
4. Offer 15 percent off all takeout orders (S5, S6, O6, O8).

**WO Strategies**

1. Create and market a new Artisan salad (W1, W5, O3).
2. Add 500 new stores over the next 3 years in traditional European and Middle Eastern Markets (W3, O1).
3. Open 10 restaurants with a dining area as a pilot study near college campuses (W6, O4).
4. Restructure by division to further capitalize on any differences in consumption preferences in international markets (W4, O1, O2).

**ST Strategies**

1. Hire a market research firm to determine the value in offering discounts or other marketing strategies to combat against new competitors in select markets (S1, S5, T3, T4, T5, T6, T7, T8).
2. Market to consumers more readily the healthier aspects of Domino’s pizza’s (S8, T1).

**WT Strategies**

1. Create and market a new Artisan salad and pizza with lower-fat cheese (W1, W5, T1, T5).
2. Offer complimentary pizza at events around the world as a means of introducing customers to the new Artisan pizza recipe (W7, T3, T4, T5).

**G. SPACE Matrix**







Domino’s lands in the Competitive Quadrant based mostly on 1) $1.5 billion in long term debt, 2) intense competition within the fast food industry and 3) Offering products that are generally not a healthy food choice. Domino’s should consider adding a line of salads to their menu to help move up the Y-Axis on the Space Matrix.

**H. Grand Strategy Matrix**



Domino’s is clearly experiencing rapid growth, especially internationally; however, their competitive position is unclear lying somewhere between Quadrant I and II. While the company has many more locations and a much better international presence than Papa John’s, Pizza Inn, and Little Caesars, the overriding debt problem is a concern. Yum Brand’s Pizza Hut still remains supreme among pizza chains. Paying off debt would be a viable strategy for Domino’s management.

**I. The Internal-External (IE) Matrix**



|  |  |  |  |
| --- | --- | --- | --- |
| **Business Segment** | **Revenue**  **2013** | **Revenue**  **2012** | **Revenue**  **2011** |
| (1) Domestic Company Owned Stores | $324 | $336 | $345 |
| (2) Domestic Franchise | 195 | 187 | 173 |
| (3) Domestic Supply Chain | 942 | 928 | 876 |
| (4) International | 218 | 201 | 176 |
| **TOTAL** | **$1,679** | **$1,652** | **$1,571** |

Domino’s Domestic Supply Chain segment is the true gem of all the segments. Backward integrated and serving 99% of domestic franchisees with their products is a recipe for an enduring revenue stream. While company owned stores have more revenue than either domestic or international franchises, much of Domino’s long term debt problem is associated with these stores. Finding franchisees to place into these stores would be a viable strategy for Domino’s.

**J. QSPM**









**K. Recommendations**

* 1. Increase advertising expenses by $35M over the next 3 years to market the new Artisan pizzas and other new products.
  2. Establish new franchisees for 1000 new stores over the next 3 years; (200 in Russia, 200 in India, 200 in China, and 400 in Europe/Middle East) for a cost of $100M. (many of these connections are already established).
  3. Hire a market research firm to assess the feasibility of adding new healthy options to the menu for a cost of $5 million.

Total Amount of Funds Needed = $140M

**L. EPS/EBIT Analysis** (in millions expect for EPS and Share Price)

Amount Needed: $140

Stock Price: $55

Shares Outstanding: 57

Interest Rate: 5%

Tax Rate: 37%





The EPS/EBIT chart reveals debt financing as the most attractive alternative for all economic conditions. However, it is unclear if Domino’s could acquire debt capital at 5%, given the firm’s current $1.5 billion of long- term debt on the 2013 balance sheet. With the high stock price, and all recommendations (in this note) suggest having franchisees provide the capital for new stores, acquiring $140 million through equity would only increase total shares outstanding from 57 million to 59 million, so dilution of ownership is not a concern.

**L. Epilogue**

As of first quarter March 2013, Domino’s continues to carry $1.5 billion in long-term debt on the balance sheet resulting in over $1.3 billion in negative stockholders’ equity. Despite the continued troubles with debt, one interesting strategic change is as of March 2013. Domino’s has changed their principle strategy of delivery speed to taking extra time to produce a top-quality pizza. Down are the advertisements of yester year, promising free pizzas if not at your door in 30 minutes and in is a nation-wide marketing campaign claiming Domino’s pizzas are made fresh from never frozen dough, and it just takes a bit longer to make a better pizza. This campaign comes on the heels of Domino’s starting their Artisan Pizzas and new recipes just a few years earlier. The new buzz word/slogan for Domino’s newest marketing campaign is simply “try our Handmade Pan Pizza.”

In addition to the new Handmade Pan Pizza, Domino’s is rolling out a new $5.99 value menu that offers Penne Pastas, Stuffed Cheesy Breads, 8-piece chicken varieties, and Oven Baked Sandwiches. All of these products are in addition to the $5.99 medium two topping pizza pick-up special Domino’s has offered in recent years. With the new products (and change in pizza recipe), Domino’s is claiming through advertisements that 80 percent of their menu items are new since 2008.