Pizza Restaurant Industry

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Industry Overview
Introduction

- Pizza Restaurant Industry
- Pizza is one of America’s most popular dinner choices
  - 93% of Americans eat pizza at least once a month
- We will focus on the “Big Four” pizza franchises
- Pizza Hut, Domino’s, Little Caesars, and Papa John’s
- Sales in the pizza restaurant industry topped $40 billion in 2015
- There are approximately 60,000 individual pizza restaurants in the US
Ingredients

- Primary ingredients include:
  - Wheat
  - Diary
  - Egg
  - Baked goods
  - Pork and other poultry

- Cheese is the most expensive ingredient, accounting for approximately a third of total ingredient costs.

- Pizza restaurants are very susceptible to price shocks within ingredient markets.

- Pizza ingredient costs represent 20% of sales, compared to the restaurant average of 30%.

- As franchises shift toward healthier ingredients, ingredient costs will likely increase.
Industry Drivers and Trends

- Consumer Spending and Confidence
  - Healthy Eating Index - percentage of recommended diet that the average American consumes
  - 68.9% in 2015, expected to increase to 69.5% in 2020
  - Pizza franchises are investing in higher quality and healthier ingredients

- Consumer preference for take-out/delivery rather than dine-in meals
  - Take-out/delivery accounts for 53% of revenue and is growing
  - Franchises are operating out of smaller stores with limited customer seating

- Online ordering systems
  - Customers create online accounts, saving previous orders and encouraging repeat business
  - Online orders accounted for 40% of sales at Pizza Hut, Domino’s, and Papa John’s
  - Allows chains to reach younger demographic
Industry Drivers

Industry revenue

Consumer spending

Healthy eating index

% change

Year 07 09 11 13 15 17 19 21

% change

Year 09 11 13 15 17 19 21

% change

Year 06 08 10 12 14 16 18 20

Industry Overview  Advertising Strategy  Prime Time Data Analysis  Bonus Analysis  Outlook and Recommendation
Market Share of the Big Four

- Concentration is relatively low
- HHI: 1,810
- The top 4 firms controlling roughly 40% of market
- Concentration is expected to increase in the future
  - Bargaining power for ingredients
  - Economies of scale in distribution
  - More effective marketing strategies
Perceptual Map

Big Four Perceptual Map

- Little Caesars
- Domino's
- Papa John's
- Pizza Hut

Price

Perceived Quality

Industry Overview  Advertising Strategy  Prime Time Data Analysis  Bonus Analysis  Outlook and Recommendation
Five Forces Analysis

Bargaining Power of Suppliers: High
- Supply Market is consolidated (Sysco and US Food Services)
- Suppliers service many other markets
- Labor - minimum wage laws

Bargaining Power of Customers: Moderate
- No switching costs
- Price elasticity is high
- Customers rarely buy in volume

Intensity of Rivalry: High
- Competitors engage in price competition
- Advertising expenditures are high and expected to grow
- Menu differentiation

Threat of Substitutes: High
- No switching costs
- Other fast food restaurants (Burger King, McDonald’s)
- Fast casual restaurants (Chipotle, Panera)

Threat of New Entrants: Low
- Relatively high capital costs
- Economies of scale in pricing, distribution, and marketing
Regulation

- Both at the state and federal levels
- Food Safety Standards - product safety, nutritional content and menu labeling
  - US Food and Drug Administration (FDA)
    - Model Food Code: food handling and presentation
    - Nutritional Value
  - Affordable Care Act: disclose calorie information on menus
- Labor Relations - minimum wage and employee benefits
- Smoking Bans
- Franchising Laws
  - US Federal Trade Commission (Franchise Rule)
Organization

- Firms acquire the following from suppliers:
  - Beef & Pork
  - Dairy
  - Egg & Poultry
  - Frozen Food
  - Fruit & Vegetable
  - Soft Drink, Baked Goods and Other
- With specialized recipes, firms then produce their menu items
- Consumers can purchase online, by phone or by stopping-in
- Options for:
  - Carryout/Delivery (quick services)
  - Catering
  - Sit-down
Basis of Competition

- Price
- Location
  - Easy pick-up options
  - Short driving radius
  - Improves visibility, generates higher revenues, cuts cost and maximizes profits
- Product offerings - toppings, meal options, beverages, desserts, etc.
  - Vary by local preference and region
- Food quality
- Ease of service, online ordering platform
Menus - Differentiation

- Pizza
  - Create Your Own
  - Pre-designed
- Pasta
- Wings - WingStreet
- Sides
  - Breadsticks/Cheese Sticks
  - Fries
  - Quepapas™
- Drinks - Pepsi Products
- Desserts
  - The Ultimate Hershey’s™ Chocolate Chip Cookie
  - Cinnamon Sticks
  - Apple Pies
  - Hershey’s™ Triple Chocolate Brownie

- Pizza
  - Build Your Own (pasta too)
  - Specialty
- Sandwiches
- Pasta
- Chicken
  - Specialty
  - Boneless/Breaded
  - Wings
- Breads
- Drinks - Coca-Cola Products
- Desserts
  - Marbled Cookie Brownie™
  - Cinna Stix™
  - Chocolate Lava Crunch Cake
Menus - Differentiation

- **Pizza**
  - HOT-N-READY® Classic Pepperoni
  - HOT-N-READY® Classic Cheese
  - DEEP!DEEP!™ Dish Pizza
  - HOT-N-READY® Lunch Combo
  - Custom
  - Pre-designed

- **HOT-N-READY® Crazy Combo®**
  - Crazy Bread®
  - Crazy Sauce®

- **HOT-N-READY® Caesar Wings®**
- Italian Cheese Bread
- Caesar Dips®
- Drinks - Pepsi Products

- **Pizza**
  - Create Your Own
  - Signature Specialties

- **Calzones**

- **Papa’s Starters**
  - Garlic Knots
  - Pepperoni Rolls
  - Breadsticks/Cheesesticks
  - Wings & Chicken Poppers

- **Desserts**
  - Chocolate Chip Cookie
  - Double Chocolate Chip Brownie

- **Dipping Sauces**
- Drinks - Pepsi Products
Advertising Strategy
“Better Ingredients, Better Pizza, Papa Johns”

- Very local as well as on national level
  - Advertises in local papers with coupons and promotions for the time
  - Nationally, has commercials on prime time channels

- Changing focuses recently to more online and mobile technology
  - Partner with EatStreet website/app

- Uses pro athletes during commercials as well like Peyton Manning
  - Sponsorships with MLB and NFL
“Make it Great”

- Nationally and locally advertised
- Reputation was built on “casual dine-in” pizza restaurant
  - Changed as trend moved to delivery and carry out
  - Constantly changing slogans
- Puts coupon on the inside of a box so customer can use for next order
- Has snapchat account
- Advertises not just their pizza but cookie and breadstick specials as well
“Pizza, Pizza”

- Advertising new range of product lines
  - “Deep!Deep! Dish” for product differentiation to emphasize Detroit roots
- Pushes price point also for differentiation
  - $5 Dollar lunch specials and have combo deal with soda
  - Focus on eating on the go and compete with fast food burger, taco and chicken restaurants
“Oh Yes We Did”

- Has paper mailing promotions as well as commercials
- New campaign of Domino’s DXP car
- Domino's focused on name change when took out “Pizza”
- Advertise significant change in ingredients
- Changing to more electronic advertising and web-based order
  - Can use emojis to send order
# Social Media

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<thead>
<tr>
<th></th>
<th>Twitter (followers)</th>
<th>Facebook (likes)</th>
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<tbody>
<tr>
<td>Papa John’s</td>
<td>390,000</td>
<td>4,100,000</td>
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<tr>
<td>Domino’s</td>
<td>1,030,000</td>
<td>10,600,000</td>
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<tr>
<td>Pizza Hut</td>
<td>1,420,000</td>
<td>27,400,000</td>
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<tr>
<td>Little Caesars</td>
<td>133,000</td>
<td>2,900,000</td>
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</table>
Prime-time Data Analysis
The Basics

Amount Spent on TV Ads

- Pizza Hut
- Dominos
- Little Caesars
- Papa Johns

Total Number of Ads

- Pizza Hut
- Dominos
- Little Caesars
- Papa Johns

Industry Overview  Advertising Strategy  Prime Time Data Analysis  Bonus Analysis  Outlook and Recommendation
The Basics

Ad Dollars Spent per Second

- Pizza Hut
- Dominos
- Little Caesars
- Papa Johns
Variation by Hour

Number of Ads Depending on Time of Night

- Pizza Hut
- Dominos
- Little Caesars
- Papa Johns

Industry Overview
Advertising Strategy
Prime Time Data Analysis
Bonus Analysis
Outlook and Recommendation
Seasonal Variation

The Pizza Industry’s Number of Ads throughout the Year

Pizza Hut and Dominos Number of Ads throughout the Year
TV Show Breakdown

**PIZZA HUT SHOW PORTFOLIO**
- DRAMA/ADVENTURE
- SITUATION COMEDY
- POLICE/SUSPENSE/MYSTERY
- SLICE-OF-LIFE
- GAME SHOW
- SPORTS

**DOMINOS SHOW PORTFOLIO**
- DRAMA/ADVENTURE
- SITUATION COMEDY
- POLICE/SUSPENSE/MYSTERY
- SLICE-OF-LIFE
- GAME SHOW
- SPORTS
TV Show Breakdown

**LITTLE CAESARS SHOW PORTFOLIO**
- DRAMA/ADVENTURE
- SITUATION COMEDY
- POLICE/SUSPENSE/MYSTERY
- SLICE-OF-LIFE
- GAME SHOW
- SPORTS

**PAPA JOHNS SHOW PORTFOLIO**
- DRAMA/ADVENTURE
- SITUATION COMEDY
- POLICE/SUSPENSE/MYSTERY
- SLICE-OF-LIFE
- GAME SHOW
- SPORTS
Pizza & Sports

![Bar Chart: Sporting Event Popularity in the Pizza Industry]

- College Basketball
- Auto Racing
- Sports Magazine
- Other Specific Event - Game
- Sports Entertainment
- Olympics
- Professional Baseball
- Professional Football
- College Football

Percent of Pizza TV ads

Industry Overview
Advertising Strategy
Prime Time Data Analysis
Bonus Analysis
Outlook and Recommendation
Pizza & Sports

Proportion of Company Ads during Sporting Events

- Papa Johns
- Little Caesars
- Dominos
- Pizza Hut

Sporting Events:
- College Football - Game
- Professional Football - Game
- Professional Baseball - Game

Percent of Ads:
- 100%
- 90%
- 80%
- 70%
- 60%
- 50%
- 40%
- 30%
- 20%
- 10%
- 0%
Bonus Analysis
### Bonus Analysis

- Watched 5 most recent ads for Dominos, Pizza Hut, Little Caesars, Papa John’s
- iSpot.TV
- Collected info!

<table>
<thead>
<tr>
<th>Ad Number</th>
<th>Company</th>
<th>Promotion</th>
<th>Ad Type</th>
<th>Ad length</th>
<th>Celebrity?</th>
<th>Creative Name</th>
<th>Network</th>
<th>Show</th>
<th>Active</th>
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<tbody>
<tr>
<td>1</td>
<td>Dominos</td>
<td>Medium 2 Topping Pizza for $5.99</td>
<td>Informative</td>
<td>30</td>
<td>Yes</td>
<td>AnyWare</td>
<td>Kick Off Cook Off</td>
<td>No</td>
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<td>2</td>
<td>Dominos</td>
<td>Free Pizza after 6 Pies + Medium 2 Topping Pizza for $5.99</td>
<td>Informative</td>
<td>30</td>
<td>No</td>
<td>A Little Bit of This</td>
<td>Adele: Live in London</td>
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<td>Medium 2 Topping Pizza $5.99</td>
<td>Informative</td>
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<td>Esquire</td>
<td>Parks and Recreation</td>
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<td>4</td>
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<td>DXP</td>
<td>Informative</td>
<td>30</td>
<td>No</td>
<td>Salt Flats</td>
<td>ESPN</td>
<td>Around the Horn</td>
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<tr>
<td>5</td>
<td>Dominos</td>
<td>Medium 2 Topping Pizza $5.99</td>
<td>Informative</td>
<td>30</td>
<td>No</td>
<td>Ultimate Pizza Delivery Vehicle</td>
<td>Rachel Dratch’s Late Night Shack</td>
<td>Yes</td>
<td></td>
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<tr>
<td>6</td>
<td>Pizza Hut</td>
<td>$5 Flavor Menu + Captain America</td>
<td>Informative</td>
<td>30</td>
<td>No</td>
<td>Captain America:Civil War</td>
<td>CMTV</td>
<td>Reba</td>
<td>Yes</td>
</tr>
</tbody>
</table>
Qualitative Findings

Similarities
1. Informative
2. Promotion
3. 30 Seconds

Differences
1. Offer consistency
2. Celebrities
3. Number of commercials currently on air
Quantitative Findings

Frequency of Active and Celebrity Ads

- Pizza Hut
- Dominos
- Little Caesars
- Papa Johns

Percent of Ads:
- Active Ads
- Celebrities in Ads
Industry Outlook & Recommendations
Outlook & Recommendations

- “Shifting demographics and cultural changes will require bold new strategies for pizzeria operators in 2016” - Pizza Magazine
- Market share will continue to rise for chains but drop for independents
- Room to enter by offering fresh concepts, going natural, and offering ingredient substitutes
- Tremendous growth experienced by companies like Blaze and Pieology in their make your own pizza model
Thank You! Questions?