



Case Study – Pizza Hut, Inc.

Study: Master of Information Technology

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Table of Contents

1. About Pizza Hut.....	3
2. Strategic Analysis	4
2.1. EXTERNAL ENVIRONMENT	4
2.1.1. <i>Pizza Market</i>	4
2.1.2. <i>Competition in the Pizza Market</i>	4
2.1.3. <i>Demand on the Product</i>	5
2.1.4. <i>Features of the Product</i>	5
2.2. FIRM INTERNAL.....	6
2.2.1. <i>Franchising at Pizza Hut</i>	6
2.2.2. <i>Pizza Hut Franchisees – The IPHFHA</i>	7
2.2.3. <i>Finance</i>	7
2.2.4. <i>Suppliers</i>	8
2.2.5. <i>Marketing strategies</i>	8
3. Strategy Formulation	9
3.1. BUSINESS LEVEL	9
3.1.1. <i>Delivery at Pizza Hut, Inc.</i>	9
3.1.2. <i>Strength</i>	10
3.1.3. <i>Weakness</i>	10
3.1.4. <i>Opportunities</i>	11
3.1.5. <i>Threads</i>	12
3.2. CORPORATE LEVEL	13
4. Strategy Implementation	13
4.1. ADAPT STRUCTURE TO STRATEGY	13
4.1.1. <i>Location Regard</i>	13
4.1.2. <i>Business Proposal</i>	14
4.2. STRATEGIC LEADERSHIP.....	14
5. References.....	15





1. About Pizza Hut

On June 15th, 1958, two brothers opened the first Pizza Hut restaurant in Wichita, Kansas (U.S.) by purchasing second-hand equipment and renting a small building on a busy cross-road. The concept was relatively new at the time and the brothers quickly saw the potential of this new enterprise. A short time later, they began to open new restaurants and developed schedules for franchised outlets. Their chain started growing up very fast, ten years later Pizza Hut Inc. counted almost 300 restaurants. In 1986, it had 5,025 domestic units and annual sales of almost \$2 billion. Half of the outlets were franchised.

A Pizza Hut restaurant is characterized by a particular freestanding design with a prominent red roof. The restaurants are full-service, eat-in/carryout with about 60 to 90 seatings, open from 11 a.m. to midnight.

Pizza Hut's franchisees have special rights to most of the smaller restaurants, company-owned outlets stand in metropolitan with a high population density.





2. Strategic Analysis

2.1. External Environment

2.1.1. Pizza Market

The pizza market grew up rapidly, when the possibility of home delivery was accepted by the consumer. In the mid-1980s pizza was the fastest growing up food at the fast food market. There are 3 segments comprised the pizza restaurant market. At first the traditional eat-in, where consumers can enjoy their food like in ordinary restaurants or pubs, at second the carryout (many stores had separated windows to provide this service) and at last the delivery-home service, where consumer can call and order their food. Many companies competed at least in 2 of these segments. For example, Pizza Hut's carryout accounted for 40% of the profit.

2.1.2. Competition in the Pizza Market

Pizza becomes more and more a typically dinner food in the U.S.. Many consumer view it as an evening snack, it is a personal and sensual experience for many people. They did not believe that great pizza fast food chains could be made it like others did it with hamburgers.

Pizza Hut dominated the eat-in pizza segment nationwide, Godfather's Pizza, which is another eat-in/carryout chain, competed in many of the same local areas and was the most significant national competitor.



Domino's Pizza posed a serious competitive threat to Pizza Hut's leadership position in the nationwide pizza market. In the time between 1984 and 1985 it redoubled its profit to more than \$ 1 billion, to more than \$ 1.5 billion by the end of 1986. The chain opened 950 new outlets (total: 2.839). Two-third of Domino's stores were franchised, but it still was a delivery-only chain. By 1986, Domino's intended to gain total market leadership when it begun to extend its expansion into smaller towns with smaller population density, which were already controlled by Pizza Hut franchisees.





	Systemwide Sales	Units	Average Check/Person	Delivery
Pizza Hut	1,934	5,025	\$ 9.99	Separate delivery units plus franchisee add-on delivery out of restaurant
Domino's	1,550	3,969	\$ 9.50	Delivery only
Little Caesar	520	1,308	\$ 2.75	No delivery
Pizza Inn	278.7	748	\$ 4.30	Separate delivery units

Fig. a : adapted from Nation's Restaurant News



2.1.3. Demand on the Product

The consumption of pizza in the U.S. depends on regional reasons. Tastes of pizza varied significantly by region, the strongest consumption is in the northern and eastern parts of the U.S.. For fast food chains like Pizza Hut it represents a challenge, to sell a product with its same taste in each outlets all over the U.S., all over the world as well.

2.1.4. Features of the Product

Pizza as a typical dinner food is often used by two-career families, which are using carryout or home delivery. Tastes in pizza depends regional, but Pizza Hut, Inc. found a taste, which is accepted everywhere. So Pizza Hut products have to be the same taste in every store in every state.

The food service industry today is one of the fastest growing industries in the United States. Beginning with the original thin crust pizza first served in 1958, Pizza Hut continues to refine its product and develop new products to suit its customer's tastes.





2.2. Firm Internal

2.2.1. Franchising at Pizza Hut

Nearly half of all Pizza Hut outlets are managed by franchisees. The company itself operates 2,173 restaurants and 361 delivery-only units. Franchise-partners are large companies, almost two-thirds operate 10 or more franchise areas. It is very exceptional and different to many other franchising programs. Franchisees sell their holdings only to the Pizza Hut Inc. or to other franchisees, no new franchise areas are offered to the public since 1971.

Franchising rights and obligations are specified in agreements, each franchisee is obligated to develop its exclusive market area in accordance with a five-year development schedule. This agreement obligates the franchisee to open an agreed number of new stores in a scheduled time. This is necessary to control new areas and to get no trouble in opening two stores in a short distance. In no case can a new outlet be established within 2 miles of an existing one.

	Company-Owned		Franchisee-Owned		
	Traditional Restaurants	Delivery-only Units	Traditional Restaurants	Retrofit	Delivery only Units
Aug. 1984	2,011	11	2,089	70	15
Dec. 1984	2,025	16	2,137	98	20
Aug. 1985	2,046	51	2,256	131	30
Dec. 1985	2,004	78	2,352	162	46
Aug. 1986	2,208	284	2,277	241	66
Dec. 1986	2,173	361	2,395	292	96

Fig. b : Open Pizza Hut Systems Traditional Restaurants and Delivery Units

Starting with the delivery program in August 1984, Pizza Hut was able to increase the count of its outlets in a very short time. Most of delivery-only units are company-owned, franchise-partners are not totally convinced of this kind of business. Competitors like Domino's are already present in almost every area.





2.2.2. Pizza Hut Franchisees – The IPHFHA

The International Pizza Hut Franchise Holders Association (IPHFHA) is formed in 1967 to “solidify the national image of Pizza Hut and to further product loyalty”! The IPHFHA communicates with the company, it employed a professional staff header, who acts as intermediary between board and company. The IPHFHA controls the entire advertising budget and is responsible for hiring and firing the national advertising agency.

Market area advertising is managed by local co-ops. They are required to make contributions and for the co-ops in their area. Franchisees are lasted to invest 2% of its monthly gross sales in marketing.

2.2.3. Finance

There are tiny, but important differences in expenses between traditional restaurants and delivery units.

Because of the franchising concept Pizza Hut just manages half of all Pizza Hut restaurants. For every new store franchisees pay the company an initial fee of \$ 15,000 and also an ongoing fee of 4% of monthly gross sales. The franchising partner has to invest about \$ 466,000 - \$ 816,000 to open a new outlet (just eat-in/carryout). Franchisees, which are investing in delivery-only stores typically do not buy vehicles and do not need to invest in the company’s computer ordering system.

Cost in advertising, discount and labor are almost identically. Just the net field contribution has more than the doubled value in the eat-in’s as in delivery-only outlets.





	Company-owned Traditional Restaurants	Company-owned Delivery Unit
Gross sales	100%	100%
Advertising, discount, promo.	16.5%	18.5%
Cost of sales & labor	48.5%	46.2%
Semivariable & premiums	8.7%	5.2%
Vehicles	-	6.1%
Occupancy costs	6.0%	2.1%
General and administrative	7.2%	7.2%
Customer Service Center	-	5.9%
Net field contribution	13.1%	5.9%

Fig. c: Pro Forma Profit and Loss Statement (based on \$8,000/week sales)

2.2.4. Suppliers

Suppliers are required to stick to all applicable laws, codes or regulations including, but not limited to, any local, state or federal laws regarding wages and benefits, workmen's compensation, working hours, equal opportunity, worker and product safety. Pizza Hut also expects that suppliers will conform their practices to the published standards for their industry.

2.2.5. Marketing strategies

Market area advertising is managed by local co-ops comprising all of those franchisees operating restaurants within a particular market area.

The company and its franchisees are convinced to intense in outlets, so that it seems as Pizza Hut is almost everywhere. This means great difficulties especially for the local competitors market.

The management of Pizza Hut decided to increases the offer of couponing, deals and price competition. At delivery-only, the size of the product – in this case pizza – is increased. This “upsizing” increases the average check price and gross margin, thereby helping to cover the cost of free delivery and the Customer Service Centers.

Pizza Hut has a good sense through experience on the performance of television relative to its impact on sales. It also has that same level of comfort with its print





vehicles in terms of its delivering coupons and other Customer Relationship Management (CRM) efforts.

3. Strategy Formulation

3.1. Business Level

Pizza Hut competes with a franchisee concept. It allows the company, to increase the number of outlets in a short time and to become a serious competitor on the market.

Building a leading pizza company has required relentless innovation, commitment to quality and dedication to customer service and value. The qualities of entrepreneurship, growth and leadership have characterized its business through more than four decades of success.

3.1.1. Delivery at Pizza Hut, Inc.

Many years ago Pizza Hut senior managers worried about entering the delivery market. They believed this would weaken the traditional eat-in/carryout business and decrease the whole profit. The solution for the management was to enter the delivery market - where competitors like Domino's celebrated success for many years – with separate delivery-only units. These units are smaller than traditional restaurants and do not require any parking areas.



A small delivery task group was formed in 1985 and began opening company-owned delivery units, but there was considerable resistance to this concept in all levels of the company. Actually Pizza Hut, Inc. was increasingly concerned about Domino's rapid expansion, and the company found out that it would be very necessary to enter the delivery market, and to prevent the loss of market leadership position.





SWOT Analysis

3.1.2.Strength

A franchising concept allows to increase its own position without having too many risks in financing and managing. Pizza Hut concept in delivery aimed to open a cluster of delivery-only units in each market and keep its costs as low as possible because of the small expected market.

A really good advantage is the Customer Service Center (CSC). It allows customers in a particular market to call a single number to place an order. The caller will be asked about his phone number and the operator can connect him to his relevant delivery unit. Also caller's data can be stored and the operator can suggest him to order the same pizza he previously ordered. It is important that the CSC system works because customers, who orders by phone, changes their pizza-delivery unit, if they have to wait too long or getting the wrong order. Eat-in consumers tolerate waiting to be seated, caller dial the number of the competitor if the call is unanswered.

One of the strengths of Pizza Hut is to be a division of PepsiCompany Inc. since 1977. It is the world's largest pizza restaurant and has a good reputation and branding. It can raise the profile of the company to gain the ability to sell at higher price, to recognise its products through the corporate image and to launch new products more easily. However, Pizza Hut has a good franchising development that has risen rapidly since its foundation in 1958.



3.1.3.Weakness

An advantage can also be a disadvantage. Too many franchisees can have too many different business concepts, only a couple of franchisees can become too powerful.

Pizza Hut's weaknesses are the complex computer systems and internal conflicts from franchisees.

This computer system was contracted to develop delivery pizza service because Pizza Hut management was convinced that the installation of this system was essential to the delivery strategy and would be a significant competitive advantage.





One major issue presented in developing a profitable delivery concept was whether there would be a charge for service taking into account that, for competitive reasons, the company could not charge for delivery. The solution to this problem was that the size and the price of delivered pizzas would be slightly increased over pizzas in traditional restaurants. Customers would pay approximately 10% more for a small, medium or large pizza but would get more as well.

But the Pizza Hut franchisees saw no reason for delivery and they openly expressed their disagreement with the company's delivery concept, especially regarding upsizing. They also questioned the necessity of the computerised Customer Service Centres (CSC) which were so expensive and that Domino's didn't have one. Significant tension arose between the company and its franchisees.

3.1.4. Opportunities

After an initial rejection by the franchisees, the number of them which had introduced delivery was growing rapidly and were doing significantly better than the company owned stores. It was a tough competitive environment in the delivery service markets (Domino's, Little Caesar, Godfathers, Pizza Inn, etc.) But looking at **fig. a**, you can assert that it is the leader in top pizza chain and that the positive difference which exists with Domino's will increase in the next years.

Pizza Hut can readily grow in other markets because it has a very good organisation and it has solid market share. Despite it having slightly fallen in 1984 until 1986 (**fig. d**), it still has quite a good market share implying that people buy Pizza Hut's products simply because they like its products.

	1983	1984	1985	1986
Sytem net sales	1,394	1,566	1,743	1,934
Market share	18.0	17.3	16.0	15.4
Units				
?? Company	1,911	2,051	2,224	2,534
?? Franchise	2,095	2,157	2,309	2,491
?? Total	4,006	4,208	4,533	5,025

fig. d: Development of Pizza Hut outlets





But the company cannot stop looking after its customer's satisfaction. Consumer research has shown that the standard Pizza Hut pizza served in the traditional restaurants was not as well-suited to the delivery environment, causing quality to suffer. Pizza Hut research and development managers were confident that they could solve the problem by developing a new product designed especially for delivery. This would involve an entirely different production process than that used currently in the traditional restaurants.

In the same way that Pizza Hut management intended to pursue strict the new segment of delivery, it can try to change growth because it allows Pizza Hut to make better use of their management, technical and financial resources.

3.1.5.Threads

The threats to Pizza Hut can be the intense competition and in silly relationship with it, to cut down the quality of the products, the service and the attention to the customers so as to develop new products to increase profit. Such a course of business would be a safely way to disaster.

For Pizza Hut, Inc. it is necessary to know, how it is its reputation, product quality, service, strength and price.

In the same way, it should know how the different classes of customers make their buying decisions.

Pizza Hut should also obtain as much information as possible about its competitors. Throughtout it has to know all about its major competitors, their identification and what the objectives and strategy of each major competitor are. Also Pizza Hut should has a wide-ranging knowledge about the competitors weaknesses and its strengths, the sizes and the trends on the pizza market. The study about the competitors should describe the trends that can be foreseen and identify external market threats.





3.2. *Corporate Level*

Marketing and presence in all areas are very important for service-company like Pizza Hut. The company and its franchisees has to observe the market, to study local areas and to evaluate whether it is necessary to release new stores in special areas or not.

Very often the local market is overbuilt and new outlets are released just to show presence on the market – maybe without any reliable profit of the carrier.

4. **Strategy Implementation**

4.1. *Adapt Structure to Strategy*

The Pizza Hut delivery solution is based upon a powerful software, which is robust, easy to use and comprehensible to all employers. It is accommodate to understand Pizza Hut's operational management and information requirements. Similar system archetypes can be developed to suit any serious business enterprise.

4.1.1. Location Regard

The location of an outlet is very important for the business, this is especially true for a premier brand that has to be located in the best positions appropriate for its market. Nevertheless, one needs to be realistic with respect to the market position. Pizza Hut maybe a prime Pizza Restaurant marque but it is not a three-star French haute restaurant. Therefore, the locations will not be Park Lane or Bond Street in London or 5th Avenue in New York. Reasonable prime locations for a Pizza Hut outlet will be general consumer shopping areas in out of town shopping malls or in High Streets.

As far as the location for the delivery service is concerned, location is not important but it has to be close to the customer residential areas or near offices, so that a quick delivery is granted.





4.1.2. Business Proposal

- ?? Improved order accuracy and customer care.
- ?? Increased productivity and speed of service.
- ?? Enhanced system flexibility and ease of use.
- ?? Reduced training costs and operator errors.
- ?? Direct information access for the enterprise.
- ?? Full functional delivery management.
- ?? Reduced paperwork and manual activity.
- ?? Security of information & trickery prevention.
- ?? Increased management control and subsequent reductions in costs.

4.2. *Strategic Leadership*

Pizza Hut is a top pizza chain but it has to maintain its position over its competitors. Domino's clearly intended to gain total market leadership. Pizza Hut should maintain and if is possible, increase the "total quality" of its products creating differential advantages in its service. It showed this when it made the decision to computerise the central ordering system which was a great idea of improving performance. The differential advantages can be in the product, in its presentation and also in the way that the staff treat the customers. Pizza Hut should never forget that the loyalty quotient of its customers is very low. However, if another chain, for the same price as Pizza Hut, gives the customer something different and more exciting than those products Pizza Hut is offering, the consumer - a typical consumer behaviour - will try products of the other chain. It is a fallacy to say that it is much more difficult to capture or recapture a customer than to maintain an existing one. Perceptions as price, quality and value are considered central determinants of shopping behaviour and product choice. Important facts are quality, which is demonstrated by freshness and first-class products, as well as friendly service which gives the guest the feeling of being treated like a king.

A second strategy could be to introduce reduction at national celebrations, special decorations in the outlets, implementing an event logo or to release stores according to special mottos like the 20th century, rock'n roll or all about a chosen country.





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