

EXAMPLE CASE—Domino's Pizza

When we think of ways in which computer networks help businesses, the first thought that often comes to mind is e-commerce. Companies such as Amazon and Netflix have made it commonplace for consumers to buy various categories of goods and services online. Companies have had less success at selling food over the Internet. But people are becoming more comfortable with the Internet and more people are online. Internet adoption has increased significantly in the United States, reaching almost 84% in 2014. This may finally be increasing our willingness to buy food online, beginning with a food category that people are already comfortable ordering for delivery—pizza.

Domino's Pizza was founded in 1960 by brothers Thomas and James Monaghan, who borrowed \$900 to purchase a small pizza store in Ypsilanti, Michigan. Today, Domino's Pizza is the number one pizza-delivery company in the United States, with a 17.5% share of the pizza-delivery market based on reported consumer spending. On average, more than one million pizzas are sold each day throughout the system, with deliveries covering approximately 10 million miles per week. Domino's Pizza pioneered the pizza-delivery business and has built the Domino's Pizza brand into one of the most widely recognized consumer brands in the world.

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As of June 2015, the company had 11,900 stores worldwide in more than 80 countries. Of these, 5,098 stores were in the United States. At the end of 2014, the company had approximately 11,000 employees. Including those in franchises, an estimated 240,000 people worked in the Domino's Pizza system.

The company has three reportable business segments: (1) domestic stores (2014 revenues: \$578 million), (2) supply chain (2014 revenues: \$1,260 million), and (3) international franchise (2014 revenues: \$152.6 million).

Domino's Pizza operates in the quick-service restaurant (QSR) industry. With sales of \$32.9 billion in the 12 months ended November 2014, the US QSR pizza category is the third-largest category within the \$261.9 billion US QSR industry. The US QSR pizza category is large and fragmented. The primary domestic competitors are regional and local companies as well as national chains: Domino's, Pizza Hut, and Papa John's. These three national chains accounted for approximately 55% of US pizza delivery in 2014, based on reported consumer spending, with the remaining 45% attributable to regional chains and individual establishments. The share of the largest chains has grown from 47% in 2008 to 55% in 2014.

Over the years Domino's has developed a simple business model focused on its core strength of delivering quality pizza in a timely manner. This business model includes a delivery-oriented store design with low capital requirements, and a focused menu of pizza and complementary side items. The majority of its domestic stores are located in populated areas in or adjacent to large or mid-sized cities, or on or near college campuses. The company believes that its pizza-delivery model provides a significant competitive advantage because most of its stores do not offer dine-in areas. As a result, they typically do not require expensive real estate, are relatively small, and are relatively inexpensive to build and equip. They also benefit from lower maintenance costs, as store assets have long lives and updates are not frequently required. The typical Domino's pizza store is relatively small, occupying approximately 1,000 to 1,300 square feet, and is designed with a focus on efficient and timely production of consistently high-quality pizza for delivery. The store layout has been refined over time to provide an efficient flow from order-taking to delivery. The entire order-taking and pizza-production process is designed for completion in approximately 12–15 minutes.

Competition in the pizza-delivery market is intense and is generally based on product quality, location, image, service, price, convenience, and concept. The industry is often affected by changes in consumer tastes, economic conditions, demographic trends, and consumers' disposable income.

Pizza Tracker

A large fraction of Domino's customer base is young. This customer base is increasingly connected to the network using cell phones and laptops and has a strong preference for using online search and Internet ordering for products and services. Internet ordering better fits the work flow of this audience than phone ordering. Therefore, strength in online order-taking can help quick-service restaurants reach this customer base.

Domino's introduced Pizza Tracker in 2007 to improve its online-ordering capabilities. Pizza Tracker has been integrated into PULSE, the company's proprietary point-of-sale system. Customers access Pizza Tracker through the build-your-own-pizza application on the company's home page. The application photographically simulates the pizza as

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customers select a size, choose a sauce, and add toppings. Customers can add coupon codes and are shown the final price before they place their order. Pizza Tracker also allows customers to track the progress of the pizza as it enters the oven, or when it leaves the store. At the time of its introduction, Domino's had the most feature-rich, online pizza-ordering application among the three national pizza chains.

Installing the online ordering system costs approximately \$20,000 per store. Many franchisees were initially hesitant to incur these costs. Resistance increased further when many of the bells and whistles in the online-ordering application did not work or were incompatible with the ways the franchisees operated their stores. In response, in developing the online-ordering system, Domino's CIO decided to focus on reliably executing core tasks such as taking orders, scheduling workers, and mapping delivery routes. This has helped overcome franchisee resistance.

Online orders are directly displayed to the right spot on the pizza-assembly line in the store. To provide status updates to customers, employees hit a button on their computer screens to update the status of the order. Another update can be generated when the delivery driver leaves the store with the pizza.

The online application makes it easy for connected customers to locate a nearby Domino's pizza and order their preferred pizza in a single visit to the company's website. The online-ordering system stores contact information and menu preferences for customers who have ordered online. This information can be used to simplify ordering for repeat customers and also to encourage adding items to orders.

The online-ordering system has proved quite popular. Almost 40% of all orders to the large pizza chains (Domino's, Papa John's and Pizza Hut) in 2014 originated online. Anecdotal evidence from adopting franchisees suggests that online ordering has boosted overall orders and increased the average amount of each transaction. CEO of Domino's, Patrick Doyle, says that "in a lot of ways, we're really a technology company." Most employees at headquarters are computer programmers and technicians monitoring production and feedback in real time, and finding ways to improve the process to reduce delivery time.

By comparison, at smaller mom-and-pop shops that can't afford to invest in online ordering, sales have fallen by as much as 20%, especially from younger customers. Since 2001, the number of independent pizza shops has fallen by 6.6%, although the overall number of restaurants has only fallen by 2.9%. One successful response from smaller shops has been gourmet and wood-fired pizzas.

References

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