

of the total QSP pizza revenues. However, the carry-out portion of the industry grew revenues from \$14.1 billion in 2011 to \$14.6 billion in 2012. Domino's is the market leader in delivery and second largest in carry-out. Outside of the USA, pizza delivery is underdeveloped, with Domino's and one rival being the only firms.

### Nutrition Concerns

An area of concern for all fast-food establishments, including pizza stores, is the growing health-minded customer, as well as the growing pressure from government agencies to label all products with nutrition information. There have been battles between the restaurant industry and government agencies for many years, but much like the tobacco industry (in respect to labeling its products). It appears the war is close to being lost for the restaurant industry. Domino's itemizes nutrition information on its website, but forces the customer to add the calories for crust, sauce, cheese, and topping, and then divide by the number of slices to derive the total calorie count per slice. After doing the calculations, one large slice of hand-tossed pepperoni pizza for example has 300 calories and 12 grams of fat, and there are 8 slices in a pizza. To complicate matters for restaurants such as Domino's, it is difficult to provide accurate nutrition labels when there can be an almost endless combination of ingredients on a pizza. For example, someone may order a large sausage pizza with onions and olives whereas someone else might order extra cheese and tomatoes. Having to print out nutrition labels for all these combinations would be quite costly as opposed to a restaurant like McDonald's where it can print the nutrition label on the Big Mac because there is uniformity in ingredients and the label is understood to be for the base item. However, Domino's PULSE system could possibly be adjusted to resolve this potential issue.

Chipotle Mexican Grill claims to only use meat and dairy products from free-ranging cattle, as opposed to cattle injected with growth hormones. Domino's Pizza markets its pizzas as having gluten-free crust. This is an attempt to win over health-conscious customers, comply with government regulations, and make current customers feel a little less guilty about eating pizza. The tug of war between customers, governments, lawyers, and the restaurant industry on health issues is likely to continue for some time.

In response to these challenges, many restaurants have opted for healthy menu options. Wendy's, for example, has promoted several meal combinations that contain less than 10 grams of fat. All of these items were originally on its menu, just not marketed in that manner. Wendy's has added side salads and fruit to help cut down on calories, fat, and sodium. Subway is also famous for marketing its products as healthy alternatives to other fast-food options. Domino's, and many pizza competitors, offer few to no menu options for the health-conscious consumer.

### Barriers to Entry

Barriers to entry are relatively low for the restaurant industry, but rivalry (competitiveness) among firms is exceptionally high. One large contributing factor for the low barriers to entry is many small entrepreneurs can open mom-and-pop establishments and bypass the franchise fees, royalties, selection process, and so on of owning a franchised restaurant and lease an existing building relatively cheap. However, even avoiding high fixed costs, variable costs are often high and small-scale entrepreneurs are not able to compete with larger franchise stores, who can better negotiate pricing on food, packaging, and other supplies. In the QSR industry, the bargaining power of consumers is quite powerful, availability of restaurant options in most places is abundant, and consequently there is intense price competitiveness among rival firms. Even if you are sure you want pizza for lunch or dinner, you likely have many options.

### Economic Factors

The current landscape in the QSR business is a bimodal population distribution with a large population of bargain-minded customers seeking deals on cheaper end fast food options, and another population of more affluent consumers targeting middle to higher-end restaurants. Domino's is well positioned strategically to target the first group of consumers because there are many more of them; Domino's often has excellent sales and discounts to target this group.

Among the subset of customers who are value shoppers, many of these are also shoppers of quality and are willing to wait in line a little longer or pay a little more for better quality

food products. Domino's has recently capitalized on this well with the introduction of its artisan pizzas and new recipes (or higher quality products) for its crust, sauce, and cheeses. In addition, Domino's offers many pick up specials. Although an inconvenience over delivery, many customers in today's climate are willing to tolerate a degree of inconvenience that they historically were not if they can get a better deal.

Similar to Domino's, many restaurant owners in the fast-food industry have experienced stronger growth in international markets than domestic markets. This trend is expected to continue, especially in China and other developing nations because many U.S. fast-food options are still novel, even in Europe. According to the S&P Industry Surveys, QSRs are expected to see a sales increase of 3 percent in 2012 and orders to increase 1.5 percent as a result in large part of consumers trading down to cheaper restaurant alternatives. There also is a steadily growing international appetite for U.S. fast food and an improving global economy. These positive trends are expected to continue into 2013 and should bode well for Domino's with its strong international presence.

### Ethics and Corporate Citizenship

Domino's has two extensive "Code of Ethics" documents on its website: one statement for its employees and one statement for its executives. The documents outline matters such as: conflicts of interest, how to report unethical conduct, fair dealing with all employees, compliance with laws, proper way to use company assets, and much more.

In addition to Domino's Code of Ethics statements, the company is noted for its corporate citizenship record in particular with St. Jude Children's Research Hospital. Since 2006, Domino's has donated more than \$12 million to St. Jude and has hosted pizza parties for patients and its families on St. Jude properties.

In 1986, Domino's launched its Pizza Partners Foundation with a mission of "team members helping team members." The foundation is 100-percent funded by team member and franchise contributions and has disbursed nearly \$12 million to aid team members facing crisis situations such as fire, illness, or other personal tragedies.

### The Future

As CEO Doyle and his management team contemplate the future direction of Domino's, it has much to consider. Should the firm continue its aggressive market development strategies and accept the risk associated with expanding into markets it has little expertise operating within? What new geographic locations or regions should Domino's focus? Should Domino's simply follow Pizza Hut's international rollout of stores? How would this expansion affect the corporate structure of Domino's? Would restructuring by geographic division and thus establishing offices in Asia, the Middle East, and South America better enable them to manage these more risky environments? Can Domino's afford this financially? Should Domino's consider offering salads or a line of healthy menu options? Should Domino's purchase trucks to deliver its products rather than incurring such heavy leasing expenses?

**Domino's needs a clear three-year strategic plan. Prepare this document for the company.**