

Evaluation of competitive environment



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INTRODUCTION

In any businesses, understanding micro-economic and macro-economic environment that business is operating in is very important stage because the factors in these two environments have strong influence on the success of business. Micro-economic environment involves demand and supply for the business, market structure and cost structure. In other words, those are internal factor of the business that to some degree business can control. On the other hand, macro-economic environment comprises of external factors that cannot be controlled by the business but have strong influence on the business for example: economic situation, inflation, interest rates.

This report will describe and analysis the impacts of micro and macro-economic environment on Domino's pizza business. The purpose of this report is to use knowledge and theory in economics for manager subject to apply into practical situation.

MICRO-ECONOMIC ENVIRONMENT

The business overview

Domino's Pizza is an American restaurant chain and international franchise pizza delivery corporation. Founded in 1960, Domino's is the second-largest pizza chain in the United States and has more than 10, 000 corporate and franchised stores in 70 countries and all 50 states of United State. Domino's Pizza was bought out by Bain Capital in 1998 and went public in 2004.

In Australia, Domino's Pizza is the largest pizza chain in terms of both network store numbers and network sales. In addition, Australia's franchisee is the largest for the Domino's Pizza brand in the world. Domino's Pizza holds <https://assignbuster.com/evaluation-of-competitive-environment/>

the exclusive master franchise rights for the Domino's brand and network in Australia, New Zealand, France, Belgium, the Netherlands and the Principality of Monaco. The Domino's brand is owned by Domino's Pizza, Inc, a listed US company.

Domino's Pizza Enterprises are operating in five countries, with approximately 845 stores hiring about 21, 000 people and making more than 60 million pizzas a year.

Domino's Staff

Products

The current Domino's menu features a variety of Italian-American entrees and side dishes. Pizza is the main focus, with traditional, specialty and custom pizzas available in a variety of crust styles and toppings. Besides, Domino's also try to appeal to a larger base of customers by expanding its menus offering pastas, sides and desserts, chips.

http://blog.vovici.com/Portals/60483/images/dominos_pizza_pie.png

http://whatifeedmyhusband.files.wordpress.com/2010/12/img_2916.jpg

http://3.bp.blogspot.com/_ZbiGiN99ULM/TLnPPUCs7gI/AAAAAAAAATs/Ymc-lsbj-b0/s1600/DSC_5602.JPG <http://slice.seriousseats.com/images/2013/01/20130108-dominos-chain-reaction-bread-bowl-pasta-5.jpg>

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Customers

Domino's target market is the consumers who is looking for reasonably-priced pizza and quick delivery. Domino's mainly focuses on delivery and

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pick-up customers. Demographically, Domino's does not target at a specific segmentation. Instead, it targets. Moreover, Domino's also concentrates on online pizza orders, so it can reach the greatest number of consumers while also improving its ability to meet customer demand, by 2012 online and mobile ordering account for up to 40% of sales.

Competitors

Domestically, Domino's faces highly competitive with main challenges coming from Pizza Hut, Papa John's and various local/regional competitors.

Direct competitors

Pizza Hut: 271 stores Pizza Haven: 150 stores Pizza Capers: 95 storesC:

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Crust Gourmet Pizzas Eagle Boys Pizza: 281 stores C:

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Indirect competitors

Domino's pizza has a huge variety of indirect competitors or close substitute products within fast food industry like Mc Donald, KFC, Subway, Nando's, Hungry Jack, Sushi...

Market share

Domino's Pizza is the market leader in the Australian chained pizza market with 46. 1% followed by Pizza Hut (29. 8%), Eagle Boys Pizza (14%), Pizza Haven (3%) and other (7%)

Figure : Market share

Evaluation of competitive environment

Monopolistic competition is a market structure where many producers of somewhat different products compete with one another (Robert, 2010, p 401). Domino's chain is operating in a fast food industry with a number of similar producers. These producers are competing together within Australia to gain market share in pizza market. Although the products produced and sold are basically the same among these producers, there are still different features that differentiate them, namely brand image, store design, location, additional services. What helps customers distinguish Domino's from other pizza stores are the distinct logo and design in store, easy online order and tracking as well as quick delivery service. In addition, barrier to entry in the pizza market is not really high. Although differentiation is a large and necessary expense for the large fast food chains, it is not difficult for private startups to overcome and thus not a significant barrier to market entry. As a result, it can be concluded that Domino's is operating in Monopolistic competition environment.

Evaluation of Demand Curve

Operating in Monopolistic competition environment and occupying 46.1% of the pizza market give Domino's a certain power to determine pizza price in the market. It is assumed that Domino's increases its price; majority of customers would switch to other places for pizza like Pizza Hut, Eager Boys Pizza or switch to substitute products of pizza like burger, chicken, sushi. However, not all customers will do that; some of them will still buy Domino's pizza because of its convenient location or quick delivery. Therefore, demand

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curve for Domino's is relatively elastic but not horizontal as can be seen in the graph.

Figure : Demand curve of Domino's

As a nature of Monopolistic competition environment, firms that are operating in that environment can pursue the objective of maximizing their profit. As a result, price will be above marginal cost (as can be seen in the graph). Domino's also can maximize its profits by producing and selling the quantity of pizza at q^* at which the pizza price will higher marginal cost of producing pizza. However, this pricing strategy need to be considered carefully and should be only employed in the short run because of the fact that in the long run if Domino's keep the price so high and its competitors reduce the price, Domino's will lose its customers base which means that the demand curve for Domino's will shift to the left leading to decreased profit of Domino's. In addition, this strategy also encourage new entrant to enter into the pizza market which also have the effect of shifting demand curve of Domino's to the left.

Cost structure of Domino's

Fixed cost and variable cost

The short-run total costs of Domino's break down into two categories: fixed costs and variable costs.

Fixed costs are the costs change with the level of outputs (Robert, 2010, p 296). For Domino's, these costs comprise of Management salaries, Plant and equipment, marketing expenses, occupancy expenses, store related expenses and communication expenses. On the other hand, variable costs <https://assignbuster.com/evaluation-of-competitive-environment/>

are unchanged with the level of output. The variable costs of Domino's include the expenditure on Food and paper and employment. (For more detail refer to appendix 3)

Figure : Cost structure of Domino's

Evaluation of cost structure

As can be seen from the cost structure of Domino's, the proportion of variable cost is relatively higher than fixed cost, 71% as opposed to 29%. In short term, declining average fixed cost is primary reason for the falling average total cost and with high output, diminishing marginal product causes marginal cost to increase which eventually causes average variable cost and average total cost to rise (Robert, 2010). Therefore, cost structure of Domino's indicates that as its pizza stores increase their sold pizza to store's capacity, the effect of declining average fixed cost will soon disappear and the effect of diminishing marginal product will be soon prominent leading to average total cost increasing quickly. This also explains why more Domino's pizza stores are going to be opened quickly within one year so that the average total cost will decrease again. This is illustrated in the graph below, as the average total cost increase quickly from A to B and its current stores nearly reach to capacity, Domino's will open another store to reduce the cost to C so that it can keep competitive price with its competitors.

Diseconomies of scale occur as the firm finds it increasingly difficult to handle the complexities of large scale management (Robert, 2010, p 306).

However, at the moment it is not a case for Domino's as the expansion strategy employed by the company is franchising. This strategy allows Domino's to expand operation without adding complexity to the

management because the business model has been standardized to be able to be copied within a market and easily managed by manager. Therefore, in the long run Domino's still can manage its cost store by store and leverage the economies of scale for each new store opened.

MACRO-ECONOMIC ENVIRONMENT

Political environment in Australia

Recently, Australia stood out as an attractive investment destination due to a political system that has been evaluated as being highly effective in responding to economic challenges. The adaptability of Australian government policy to economic changes has been ranked in the top two countries in the region (IMD World Competitiveness Yearbook, 2009).

Australia also has an open, efficient and transparent legal framework due to a strong system of checks and balances, and a highly respected judicial and law enforcement system.

Moreover, tax policy, labour law, environmental law, trade restrictions and tariffs are carefully constructed and implemented consistently which provide a clear guideline and safe environment for businesses (Australian Trade Commission, 2011).

Economic environment in Australia

The economy of Australia is one of the largest economies in the world. In 2011, it was the 13th largest national economy by nominal GDP and the 17th-largest measured by PPP adjusted GDP, about 1.7% of the world economy. Australia is the 19th largest importer and 19th largest exporter.

Service sector is the main contributor to the Australian economy with 68% of GDP. The mining sector presents 19% of GDP. Economic growth is largely dependent on the mining sector and agricultural sector with the products to be exported mainly to the East Asian market.

Australia is a member of the APEC, G20, OECD and WTO. The country has also signed free trade agreements with ASEAN, Chile, New Zealand, Thailand, and the United States. The ANZCERTA agreement with New Zealand has greatly increased integration with the New Zealand economy subjecting to form a Single Economic Market by 2015.

Growth rate

Australia is one of the fastest growing economies among developed countries. Despite of the effect of global financial crisis, Australian economy still shows a good sign of continual growth. The main industries contribute largely to Australian economy include mining, tourism, education, agriculture and manufacturing.

Historical Data Chart

Figure : Australia GDP growth rate

Unemployment rate

Jobless rates in Australia fluctuated between 5 to 5.4% between 2010 and 2012, this is a satisfactory indicator of a growth and healthy economy as natural rate of unemployment is 5%, especially in the world's current situation where the unemployment rates in other developed countries are

alarming high such as 7.8% in US and 11.8% in Europe. Historical Data Chart

Figure : Australian unemployment rate

Inflation rate. Historical Data Chart

Consumer Price Index (CPI) shows a downward trend over the period from 2010 to 2012 reflecting an effective monetary policy of Australian government.

Figure : Australia inflation rate

Interest rate

Interest rates in Australia tend to decrease significantly during 2011-2012; this indicates a healthy economy that encourages investment and capital markets remain open to corporations

Historical Data Chart

Figure : Australia interest rate

Evaluation of influence of micro-economics on Domino's business

Through above overview of macro-economic environment, it can be stated that Australian economy currently is favorable for organizations operating in and Domino's is not an exception. Economy is still growing and creating more jobs indicating that people will have more disposable income to spend, hence demand for pizza will increase in the future. This is demonstrated by the fact that disposable income per capita in Australia over last decade has

been increasing 2.6% per year in average, meanwhile revenue of Domino's has been also increasing significantly at average rate of 20%. This fact also shows that pizza is likely to be a normal good because quantity demanded increase with the growth of consumers' incomes.

In addition, low unemployment rate and interest rate are good indicators for Domino's because it can easily access to financial and human resources which are the key factors of any business. However, the problem face Domino's is the increase of food price and wages. As these are two main costs that make up for about 75% of total cost, an increase in those cost will influence the ability of Domino's to keep the competitive prices to customers.

APPENDIX

Appendix 1: Management salary and fees

Appendix 2: Statement of income 2012

Fixed cost

Value (\$000)

Variable cost

Value (\$000)

Management salaries

5, 142

Food and paper expenses

78, 679

Plant and equipment costs

8, 588

In store employee's wages

60, 140

Depreciation and amortization expense

10, 029

Occupancy expenses

7, 837

Marketing expenses

11, 477

Store related expenses

5, 887

Communication expenses

6, 669

Total

55, 647

Total

138, 819

Appendix 3: Fixed cost and Variable cost of Domino's in 2012