

Dominos pizza: strategic analysis and recommendations



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Tom Monaghan and his brother James founded Domino's Pizza Incorporation in the year 1960 after they purchased DomiNick's. DomiNick's was a small pizza store in Michigan and specifically at a place called Ypsilanti. Tom Monaghan became the sole owner of the business after his brother traded half of the business for a used Volkswagen Beetle and later renamed the business Domino's Pizza Inc. in the year 1965 (Daszkowskii). The company trades in the NYSE under the name DPZ and it has a number of stores internationally. The company's headquarters is in Ann Arbor, Michigan, in the United States of America.

Domino's Pizza Inc. has been considered as the second-largest pizza chain in the United States according to Forbes Magazine. The status of the company is that it has over 9, 000 franchised and corporate stores tin over 60 international markets including the 50 states in the United States. It is important to note that the company was bought Bain Capital back in the

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year 1998 and shares were traded in 2004 after the company went public. Some of the delicacies featured on the Domino's menu include pasta, oven-baked sandwiches, boneless chicken, wings, breadsticks, salads, a variety of desert items, cheesesticks, and of course pizza (Daszkowskii).

Since its inception, the company has grown from strength to strength.

Domino's Pizza Inc. started its first franchise business in 1967 by opening a first store in Ypsilanti. Despite the original idea to add a dot to the logo of the company on every opening of a new branch, the idea was quickly faced out because the company was quickly experiencing rapid growth. By the year 1978, the business opened its 200th store. This showed how first the business was growing. However, it is important to note at this point that the company has underwent a major challenge during its infancy stages that threatened to hamper the growth of the company and even its existence. The 1975 lawsuit filed by Amstar Corporation, which was a maker of Domino Sugar at that time, made a complaint arguing and alleging that Domino's Pizza Incorporation had violated and infringed its trademark and had therefore instituted unfair competition to their company. This legal battle lasted for five years and on May 2, 1980, the court of appeal or federal appeals court ruled in favor of Domino's Pizza Incorporation (Daszkowskii).

Domino's Pizza Incorporation went international in 1983 when it opened its first international store on May 12, 1983 in Winnipeg, Manitoba, Canada.

During the same year, the Domino's had managed to open its 1, 000th store in general. The company also managed to reach a whopping 1, 000

international stores by the year 1995 and further stretched this number to 1, 500 stores in the next two years. One of the greatest achievements of the <https://assignbuster.com/dominos-pizza-strategic-analysis-and-recommendations/>

company in terms of expansion was the opening of seven stores across five continents in just one day (Datamonitor).

Domino's Pizza Company rolled out its mobile and online ordering services in the year 2007 while at the same time delivering and introducing their Dream franchising programs and at its Veterans respectively. These events made a significant impact in the company pushing company operations a notch higher. One another significant event in 2006 was the performance of Domino's store in Tallaght, Dublin in Ireland: the store made a turnover of \$3 million and became the first store ever in the history of the company to hit the mark (Daszkowski).

It is of equal importance to take note of the fact that the company was rated the last tying with Chuck E. Cheese's in a survey that was conducted by Brand Keys on all consumer taste preferences among national chains in 2009. This arguably meant bad results for the company and strategic issues had to be developed some of which are still under current implementation as will be discussed later in this paper (Datamonitor). In 2008, the Dominos adopted a diversification strategy through the introduction of non-pizza fare where they offered oven-baked sandwiches in four unique styles. The strategy was intended to compete with toasted submarine sandwiches cooked or prepared by Subways, a fast food restaurant. One of the marketing strategies adopted by the company in marketing these sandwiches was to offer them freely to people who were named "Jared" which was a reference to one of an employee of Subways, its targeted competitor (Daszkowski).

Body

Introduction

The purpose of this report is to identify strategic planning issues in Domino's Pizza Incorporation which the management or the company plans to achieve or is already undertaking to achieve within a given span of the next three to five years. The report explores some of the main goals of the company and develops an understanding of how the company is likely to achieve some of its set goals or objectives in the time span given. The company appointed a new chief executive officer in 2009 as part of a strategy to grow its prospects in the fast food chain industry. Dominos Pizza Incorporation is currently facing a lot of completion from well-established competitors like the MacDonalld Incorporation and Subways, which are biggest players in the fast food industry. The efficiency and effectiveness of the strategies currently undertaken by Domino's are essential in determining the dynamics of the company in future: this is the aim of this report as it seeks to give an appraisal of the strategies and finally giving the recommendations.

In order to develop a clear understanding of the strategies adopted by Domino's, the report develops an analysis of Domino's company as compared to Pizza Hut. This analogy is essential because the two businesses operate in the same segment within the wider fast food industry. The paper finally highlights some recommendations that the company should adopt in order to realize their prospects due to increasing competition. Some of the recommendations made by this report to Domino's Pizza Inc. include redefining of in-store dining strategies relative to online sales that are growing significantly in the current global trend, capitalizing on socio-cultural

shifts that are currently being experienced in the United States where it is majorly established (Datamonitor).

In addition, the report recommends that the company should consider continuous reinforcing and strengthening of its brand in order to grow and compete effectively in the market, Domino's should also drive up a series of same-store sales to achieve customer loyalty and at the same time reducing customer churn. The recommendations given are highly based on the current prospects in the market, as explained earlier, and the strategies that the company is undertaking or is yet to undertake.

Strategic Issues for Domino's

It is quite important to note that some of the strategies adopted by the company started back in 2009, as part of an ambitious program to increase its competitiveness in the market and in the industry as a whole. One of the strategies that the company adopted in 2009 was the introduction of American Legend line of pizzas, which was significantly their specialty line of pizza (Daszkowski). These pizzas featured over 40% of cheese over and above the normal or regular pizzas that the company used to sell at the time. In addition, the company made some additives, which composed of a variety of toppings. Within the same year, Domino's introduced the Bread Bowl Pasta entree which was mainly a lightly seasoned bread bowl that was purely baked with pasta inside. In another successive twist, Domino's introduced the Lava Crunch Cake dessert which was composed of warm fudge that was filed on crunchy chocolate shells (Young).

As a way of promoting the strategy above, Domino's flew in about 1,000 cakes to deliver at their store, which is located at Hoffstadt Bluffs Visitor center that is near Mount St. Helens. The whole idea of introducing these delicacies was a part of the strategy of diversifying the scope of operation of the business to include other competitive delicacies like other companies in the fast food industry business (Daszkowski). In addition, the company made tremendous changes to its pizza recipe: "from the crust up" this year, 2010, which ushered in new changes in the cheese, sauce, and dough that are used in preparing their pizza (Young). The launch of this new recipe was viewed by many consumers as a correction to their earlier mistake in which the company's product had been criticized in terms of taste by many individuals. This had affected the perception of the product of the company and indeed the company confirmed this view in one of its advertising campaigns, which promoted the new recipe (Daszkowski).

Currently, Domino's is planning to undertake expansive strategies with plans to open an additional 55 stores within this year at various strategic locations in its major areas of operation. The company aims to achieve its needed growth and expansion in the fast food industry amid its growing revenues that increased by 8.1% in the first quarter of the year 2010 alone. The plans were announced by the company at the beginning of April this year, 2010, after successfully appointing a new Executive Vice President to manage its supply chain. According to the company, the need to manage fully their supply chain was mainly because of the increasing need to manage supply chain routes that have been attributed as major contributors to increases in

operational costs in businesses, especially in the United States (Associated Press).

The company has undertaken strategies to improve supply chain management and plans are currently underway to develop fully automated management systems to monitor the supply chains of the business. The company bases this reason on the fact that its supply chain contributed heavily to the operational costs according to its financial report for the year ended 2009. The costs led to a decrease of 1.5% in company revenues to \$1,404.1 million when compared to the revenues that the business earned in 2008 (Daszkowskii).

Domino's Company has also intensified its competitive strategy by pushing their battleground to pay up media with the company's subscription amounting to 94% against 92% from its close competitor Pizza Hut according to the report released by TNS Media Intelligence. According to the company analysis, the media advertising strategy is justified because the effects were evident in the market place. The Domino's TV adverts have been designed to be tactical and market-oriented, which places on the platform the menu range and the quality. This fact is supported by the TNS Media Intelligence who says such adverts would have an impact on the market in terms of responsiveness of the consumers to the products of the company (Globaldata).

The company is making plans to invest heavily in media advertisement with significant focus on content and creativity for their adverts. It is important to note at this point that the company has been targeting Subways in most of

its advertisement with the comparison advert, which showed that many customers preferred products from Domino's than from Subways. As motioned before, this strategy has been utilized by the company for a number of years now and the company seeks to continue pursuing this strategy as a way of eluding its competitors (Daszkowskii).

In 2009, Domino's Pizza Inc. almost tripled the amount investment in online advertising and the main targets being the social media like Facebook, College Humor, and MySpace. In future plans for the company are to continue in this line of investment because it has witnessed tremendous growth in sales based on this line of investment. In August, Domino's introduced an application which allows consumers to order for pizza directly from their iPhone. During the launch, the company recorded massive downloads but according to the company's CEO, the company is currently undertaking measures to increase the number of customers or users utilizing this exciting service (Globaldata).

Domino's Incorporation was a little bit behind in terms of users using this service behind their bitter rival Pizza Hut. Pizza Hut managed over 100, 000 downloads of the application in only two weeks after the launch, which was almost 24% more than what Domino's achieved. This is the main reason that has triggered the company's strategy of utilizing search engines such as Google and Yahoo through the Pay per Click system, which the company hopes it will increase the customer traffic to their application download (Young).

In the past, most sales of the company have been supported by the promotional activities that have accompanied every strategy that the company has ever introduced. Domino's is currently counting on the promotional campaigns it has adopted basing its argument on the idea that extensive promotions will bear good fruits like the promotional campaign that the company held following the launch of its "American Legend" specialty pizza in 2009, as earlier mentioned (Daszkowski).

Generally, the company's strategy are geared towards expansion and gaining a competitive advantage in the fast food industry (Young). Domino's is also camping on the pricing strategy that it introduced back in 2009 which was aimed to bring back some price-sensitive customers under their "barbell" technique. In addition, Domino's is planning to continue the advertising wars, which are aimed at targeting major competitors like Subways and Pizza Hut.

Action Recommendations

It is important to consider Domino's SWOT analysis before considering making any action recommendation for the company. In order to achieve workable strategies, it is essential that a business or an organization consider its weaknesses, opportunities, threats, and strengths. Some of the strengths that are evident in Domino's business include the fact that the business or incorporation owns stores, which are located in over 60 countries and it has a well-established network connection for both segments of the business: company owned and franchised. It has also been rated the most popular and leading pizza delivery companies within the United States borders and employs about 10, 500 employees (Young).

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Domino's Pizza Incorporation has a strong brand equity, which gives it an overall advantage over other industry players in the industry. One other significant strength is the intelligent marketing services adopted by the company. These advertising strategies have contributed to its brand image in the company, which has an effect of instigating a sense of retention and differentiation. The company continues to adopt the effective supply chains, which has given it an advantage in ensuring effective supply of all its stores. The company also has one major weakness, which is mainly the weakening or decreasing bottom line due to decline in sales and slow growth (Datamonitor).

The company has expansion opportunities in India and China where it has very few franchises and stores generally. In addition, the company has an opportunity to introduce new products in its existing menu especially pizza toppings and flavor additives that are specified for a given region, this will give the much needed impetus. A number of threats exist within the company and they include the increasing awareness of by consumers on the disastrous effects of fast food items that have high calories within them. The continuous researches on effects of additives like flavors are yet other threats for the Domino's. In addition, the health sector has continued to criticize the fast food products on grounds that they are saturated with substances like sugar, oils, fats, and sodium: this continues to pose serious threats for the future of the company (Young).

Recommendations

Having considered the SWOT analysis above, it is now possible to give the following recommendations to the company. First, the company should concentrate on increasing its network coverage in India and China in order to seize the looming opportunity in the two emerging economies. India and China carry less than 2% of the total stores under the Domino's company (Globaldata). The number of stores should be increased to more than 20% in the next three years in order to meet the company's expansion strategy that it is currently pursuing. Secondly, Domino's should focus entirely on customer loyalty through insisting on quality and ensuring that all stores deliver the best delicacies. These guidelines on quality should be adhered to strictly if at all any good results are to be achieved. These two recommendations are based on the reason that the level of competition in the fast food industry is growing steadily (Young).

Thirdly, Dominos Incorporation should consider utilizing their intelligent advertising techniques to focus on all the players or competitors in the market other than only focusing on one competitor, Subways. Concentrating on one competitor may have serious consequences to the company especially where established businesses like Macdonald may come up with ingenious strategies that may affect the stability of the company and growth in general (Datamonitor). Fourth, Domino's should improve their innovative strategies that they have adopted their online marketing and selling. Pizza Hut performed better when compared to Domino's company in terms of online rewards despite having invested almost the same amount of money in their online services segment.

The current operating company hybrid model is estimated to be at 70% franchised while 30% of the stores are owned. The number should be adjusted to reduce operational costs by increasing the number of franchised businesses to about 85% in order to reduce the overall operational costs. Fifth, Domino's Inc should focus on improving its brand image because this is one of its strengths; this can be achieved through continuous strengthening and reinforcing their brand in the market (Young). One vital factor that needs to be carefully taken into consideration by the company is the highly dynamic socio-cultural change or the changing lifestyles of the people in the United States and the across the globe as well. Their products should reflect these changes if the business is to achieve continuity. Companies like MacDonald Incorporation concentrate on cultural changes that occur and subsequently train their employees in order to meet the demands of changing lifestyles (Datamonitor).

In relation to the recommendations above, Dominos Incorporation should focus its attention on online sales and utilize this effect to redefine their own in-store dining strategies to match the growth in online sales as mentioned above. The use of internet in the world today is increasing at a faster rate and the growth in online sales of the company that have been noted can only be supported through taking a keen look at the in-store dining strategies. Finally, the Domino's should look at available options in their customer mix or churn: the company should actually reduce it in order to remain competitive and realize its strategies and objectives as well (Daszkowskii).

Achieving goals requires a definite path that is clearly built on the strengths and focused on the opportunities of the company (Young). The recommendations given above reflect on the current strengths and opportunities of the company: they are aimed at overcoming any threats and the weaknesses that the company faces currently.

Conclusion

It is evident at this point that Domino's Pizza Incorporation has a good brand image, which is one of its strongest points. In addition, the company has had a good history despite a few lawsuits and criticisms on taste as mentioned above. Domino's advertising strategies are quite effective and have worked to improve the sales of the company as well as its competitiveness in the market. However, the company faces major threats that might put the future of the company to dire test. The sociocultural changes that continue to occur in the world today require that the company make rapid changes and continuous monitoring of the lifestyles of the people in various parts of the world: especially where they operate. There level of competition in the fast food industry is growing stronger by day and maintaining loyal customers is the ultimate strategy for any business in the industry today.

Appendix A: External Analysis

Social changes

There are changes in lifestyles of the people in the United States for example and this continues to impact on the company; this also happens in other areas as well.

Technological changes

The need for online sales is currently on the increase.

Economic trends

The company underwent the 2008 recession, just like many other companies, but remained stable.

The growth rate is expected to increase in the near future to about 20.6 %
(see Global data)

Political/ regulatory trends

Given the fact that the company operates in many countries, political interferences are common. The health issues have also been affecting the firm.

Potter's forces

Substitutes

Other substitutes to pizzas are available even in restaurants and this affects the business.

Threats of competitors

There are many competitors in the business including companies like Subway, MacDonald, and Pizza Hut.

Appendix B:

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