Papa john’s

Finance

Introduction

We already know that Papa John's is a major player in the Pizza industry but what does the future hold for them. One of the business-level strategies that Papa John's implemented was product differentiation through the use of fresh dough and superior-quality ingredients. John Schnatter believed that other pizza restaurants used inferior ingredients and that he could do it better. This strategy was implemented from the very beginning in the United States.

Another successful business-level strategy that focused on product diversification employed by Papa John's was the use oftechnologyto order pizza. In 2001 they became the first pizza company to offer online ordering. The most significant corporate-level strategy used early on by Papa John's was mergers and acquisitions. In the late 90s, the company acquired 205 " Perfect Pizza" restaurants in the UK. They continued aggressively acquiring international restaurants until the early 2000s when they began to focus their acquisition efforts domestically.

In just under 30 years since opening its first store, Papa John's has added over 4, 000 stores (papajohns. com). That's an average of over 140 new stores every year since inception, an incredible pace. They also decided to use the franchisee model. Although this model has its critics, it can be a very useful way to generate revenue without adding to store overhead, etc. The franchisee model has been successful for Papa John's. Papa John's was enjoying a 5+ percent average revenue growth rate for the previous five years. The company also boasted one of the highest returns on invested capital in the restaurant category of the markets.

Total assets grew steadily from 2003 to 2007 as well. This growth was financed mostly by debt, but debt/equity ratios remained healthy. Apparently Papa John's holds a competitive advantage in its fresher, higher-quality ingredients. When a customer is looking for a restaurant-quality pizza with ease of delivery, they turn to Papa John's. External Analysis-- During this study, the pizza industry was extremely competitive. Barriers to entry were few and competitors could drive prices for pizza ingredients extremely low, enabling them to easily undercut other competitors' prices.

Foodcommodity prices also took a 20 percent jump in 2007, which didn't make the industry any more attractive. One of the attractive features of the industry is that because pizza ingredients are commodities, supplier power is very low. Suppliers cannot dictate prices to buyers, because they can go somewhere else. Buyer power, however, is very high. If someone doesn't wish to buy a $12. 00 pizza at Papa John's, they can go across the street to Little Caesar's for a $5. 00 pizza that tastes almost the same. The two major competitors of Papa John's are Dominos and Pizza Hut. Both of these companies enjoy a larger market share than Papa John's.

These companies are focused more on price savings than Papa John's, who is focused on quality pizza. Just like any other sub-section of the food industry, thousands of pizza restaurants are opened each year, which continues to make profits more difficult to obtain. Internal Analysis--The commissary system is an important part of what gives Papa John's an edge over its competitors. Every Papa John's restaurant belongs to a subdivided region, and each region has what is known as a commissary. These commissaries send fresh ingredients and cleaning supplies twice per week to all the Papa John’s restaurants within their region.

This ensures fresh ingredients and all the supplies needed to clean the restaurants. This also maintains consistency from restaurant to restaurant as all of the commissaries are controlled at the corporate level. By servicing several units from one commissary, labor costs are also driven down. Papa John’s international growth is also an advantage it has over many of its competitors. By taking advantage of all different markets around the world, Papa John’s ensures that business is most likely thriving somewhere at all times. All of these factors create a competitive advantage for Papa John’s.

Recommendations Based on this analysis of Papa John’s, the following recommendations are made to help the company continue its profitability.

1. Expand internationally as much as possible. With several stores in diverse locations throughout the world, Papa John’s will be well diversified and able to absorb losses in one area better.
2. Continue to move more toward the franchisee model even more so than they are currently doing. By furthering this model, overhead and administrative costs at the corporate level are drastically reduced.