

Name – Rithikaa Vijayakuamar

Reg Number – 710080489

Why Pizza Hut lost to Domino's in the pizza race and what should it do to regain the number one position?

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Introduction

Pizza Hut, founded in May 1958 by the Carney brothers in Kansas, is the largest operating pizza chain in the world in terms of number of outlets with over 17,639 pizza restaurants over 100 countries. The company was acquired by PepsiCo in May 1977 and became a part of Tricon Global Restaurants in May 1997, which assumed the brand name Yum! Brands in May 2002. It is the first fast food chain to open “pizza only” restaurants and their hut shaped roofs did justice to the brand name.

With their unique menu and fresh ideas Pizza Hut has always been a brand name that lingers across every pizza lover's thought. They were the first to introduce the pan pizza in the 1980, followed by hand tossed crust in 1988 and the game changing stuffed crust pizza on their 25th anniversary. The brand also went a step ahead with its marketing strategies and sent one of its pies to space and casted Donald Trump in its commercials.

Unfortunately, in 2017, its competitor brand Domino's overtook pizza hut in terms of global sales to become the largest pizza chain in the world. Further, due to lack of technological advancements,

old menu and customer data breach, pizza hut is facing major backlash as its stock value is declining day by day.

This report is a case study of the 60-year-old pizza giant's journey and where it went wrong to fall behind Domino's in the 42-billion-dollar pizza market. After careful analysis of the business problem, a few recommendations have been provided for the brand to regain its customers and popularity.

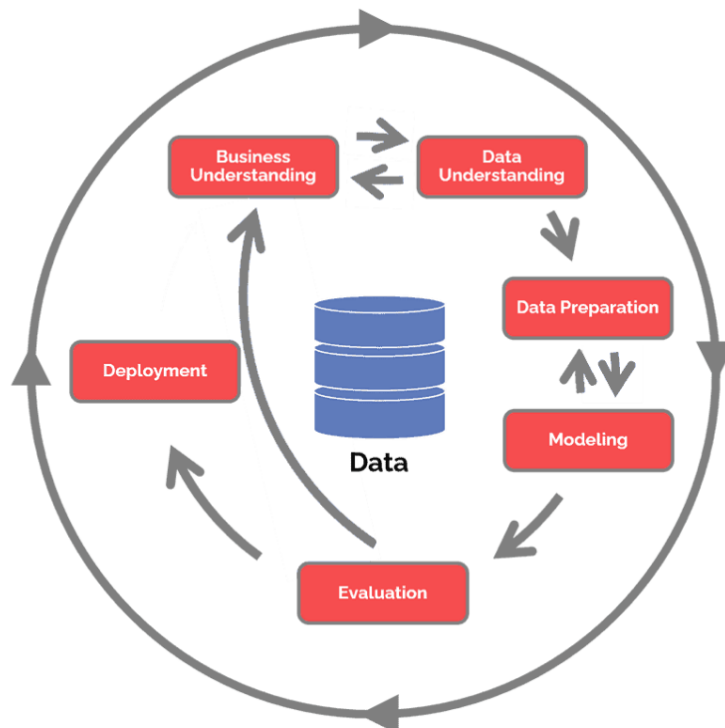
Objectives

The Objectives of this report are as follows:

- To analyze the current state of the organization.
- To retrace its business path and identify the areas where the brand is lagging.
- To analyze the technological side of its business
- To study the business methodology followed by Domino's that made it overtake Pizza Hut in 2017 in terms of global sales.
- To give recommendations to the brand on how it can improve its business and regain its lost popularity.

Methodology and Approach

Using the CRISP-DM methodology for the problem –



Source: <https://www.datascience-pm.com/crisp-dm-2/>

Figure 1 – CRISP-DM Methodology

The Cross Industry Standard Process for Data Mining is a methodology used to describe the various phases of a project. The CRISP-DM methodology has six phases:

1. Business Understanding – Understanding the business involves analyzing the current state of the business and identifying what it requires to solve the problem.
2. Data Understanding – Understanding the data available. This will involve finding out what data is required for analysis and if the data available is not clean by itself, what methodologies can be applied to clean the data.
3. Data Preparation – Organizing the data for the relevant problem and organizing it for the data modelling.
4. Modelling – Identifying the modelling techniques to be applied on the data to solve the business problem under consideration.
5. Evaluation – Evaluating the processes and determining the next steps to solve the business problem.
6. Deployment - Formulating a business plan using the inferences made from the above steps and generating useful reports.

Data Available and Limitation

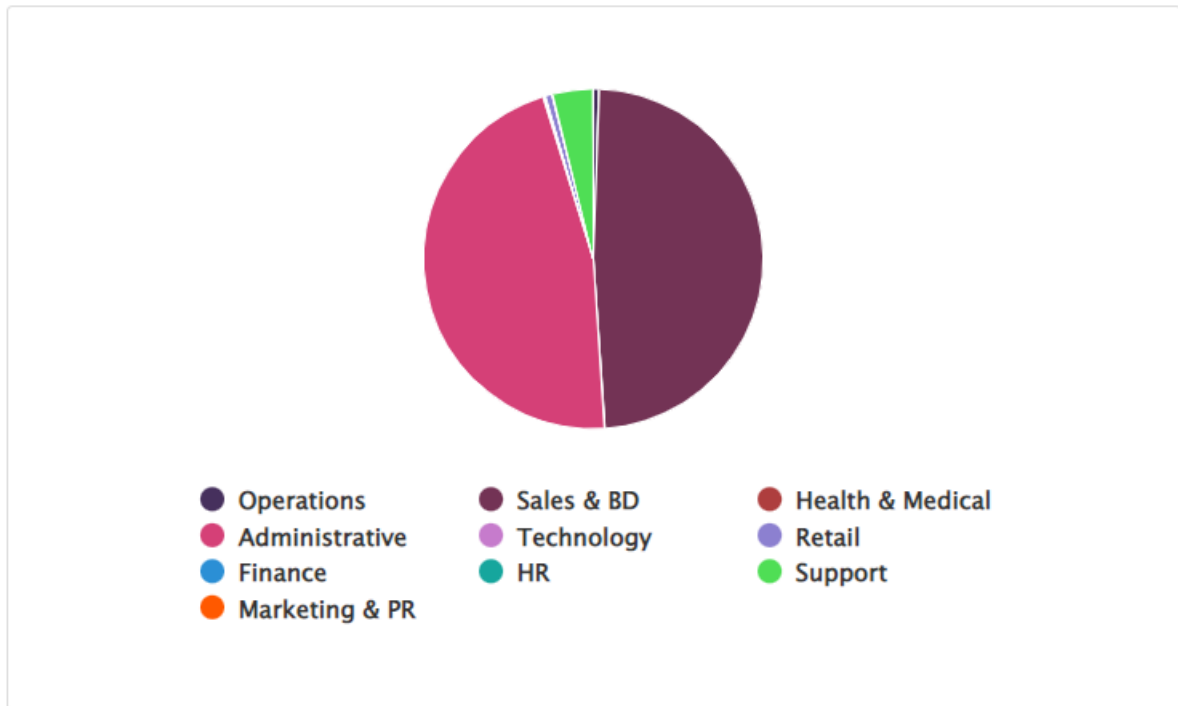
The data required for the problem is collected from various sources such as Craft and Statista. The existing data is clean and ready to analyze. Since the above-mentioned sources are certified and trusted publishers of information, the data used for this analysis is trustworthy and chances of error are negligible. However, there are some limitations:

1. Most of the data available for the analysis is from Statista and needs a premium membership for access. Hence, the data is not freely available to the public.
2. The organization, both Pizza Hut and Domino's, do not have a freely accessible data repository for themselves and analysts or public should depend on third party analytical websites for data.

Studying the current state of the organization

Founded in 1958, the restaurant chain has always been one of the big names in the pizza industry. It has achieved various milestones in its journey and has been the world number one in terms of pizza. The unique idea of freshly prepared crusts, toppings, and sauces have made it a pioneer in the food industry. With over employees working under the brand in various categories, it is one of the world's leading organizations in terms of the supply chain industry. Below is a split-up of the various departments the organization is hiring people in and it can be seen that the Marketing and PR section have 0% employee strength.

Pizza Hut Hiring Categories



Source: <https://craft.co/pizza-hut>

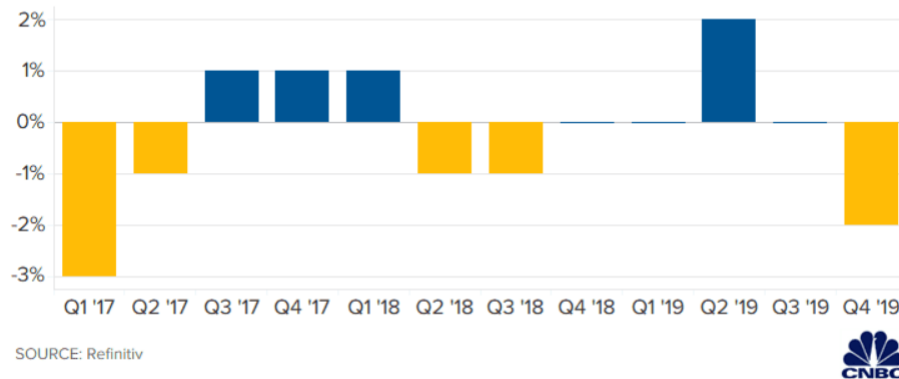
Figure 2 – Pizza Hut hiring categories

However, the brand is facing major decline in the net sales volume in the past decade and is seeing major decline in the brand name and value. The stock prices of the brand have seen a major downfall since the past few years and its parent organization Yum! Brands has agreed to the operating losses it is facing with Pizza Hut due its poor business plan for the pandemic. Pizza Hut was the first company to establish itself as a dine-in pizza restaurant chain. Its signature red hat like roof design and posh interiors are the trademark of the label.

However, with the current pandemic situation, the public have turned towards home deliveries and takeaways. Further, rise of its competitor brands such as Domino's and Papa John's pizza having a robust technological side and delivery services making them rise up the table in the competition. Also, with the shutting down of restaurants due to the pandemic the "dine-in" option seems blurring out as a major choice among the people. Due to this, the pizza chain is facing major backlash. According to Yum! Brands, the fourth quarter sales of the pizza giant in 2019 have seen a same-stores sales decline of 2%. In the United States, which is the restaurant chain's largest market, the same-store sales fell to 4%. Further, the Pizza Hut share under the limited-service pizza category has dropped from 25% to just 14.3% between 1995 and 2016.

Pizza Hut same store sales

Q4 2019: -2%



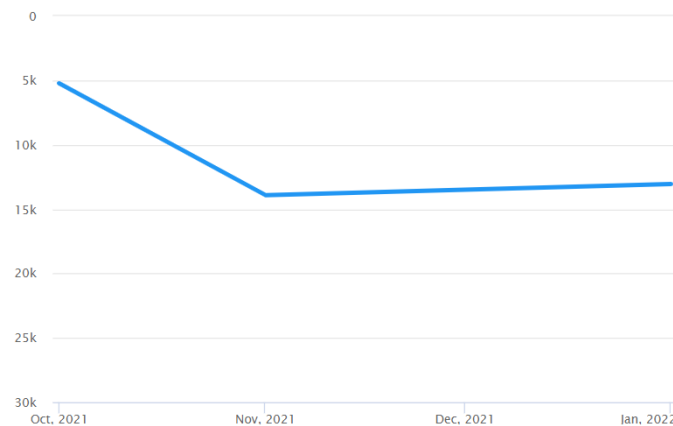
Source: <https://www.cnbc.com/2020/02/06/pizza-huts-slumping-us-business-eyes-turnaround-with-new-management.html?&qsearchterm=pizza%20hut>

Figure 3 – Pizza Hut same store sales – Q4 2019

In July 2020, one of Yum! Brands' franchisee NPC International that operates up to 1200 Pizza Hut restaurants in the United States filed for a Chapter 11 bankruptcy with a debt of 1 billion dollars due to the slumping Pizza Hut sales. Also, the organization has not developed its mobile application and website to be more user-friendly and interactive. As the pandemic is limiting people from coming out and enjoying the restaurant experience by imposing lockdowns, everybody is inclined towards online ordering and takeaways. Forecasting this, the competitor brands such as domino's have their online ordering and delivery services in their best form and have even partnered with third party food delivery applications. According to amazon, the Alexa website ranking of the organization has dropped abruptly to 13,056 over a short period of time.

Pizza Hut Website Traffic

Alexa Website Rank



Source: <https://craft.co/pizza-hut>

Figure 4 – Pizza Hut website traffic

Further, the interest of the people in the brand is also showing a decline. According to google trends and all brands market, the number of searches for the “PIZZA HUT” is showing negative growth, with the number of searches reducing day by day.

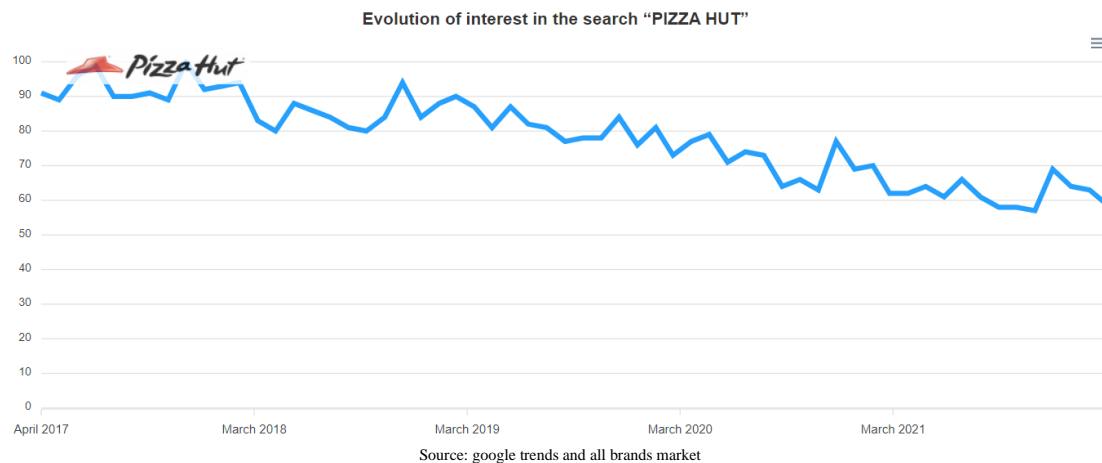


Figure 5 – “Pizza Hut” search statistics

Data Ethics and Data Breach issue

According to the UK Government, data ethics or a data ethics framework is a “set of principles to guide the design of appropriate data use in the public sector. It is aimed at data practitioners, policy makers, operational staff and people helping to produce data informed insight”.

The main principles of data ethics for business are:

1. Ownership – The owner of the data, the customers or users in this case, have all the rights to be informed of why, how and when their data is collected. It is illegal to collect someone’s data without their consent.
2. Transparency – The process of collecting, storing and managing the data should be transparent and the information regarding the same should be available to the users or customers.
3. Privacy – The privacy of the customers or users should be protected at any cost by storing the data in a secure database.
4. Intention – The intention of the organization to collect the data from the customers or users must be clearly conveyed and agreed upon.
5. Outcomes – The outcomes of the data analysis, either positive or negative, should be conveyed properly to the data owners.

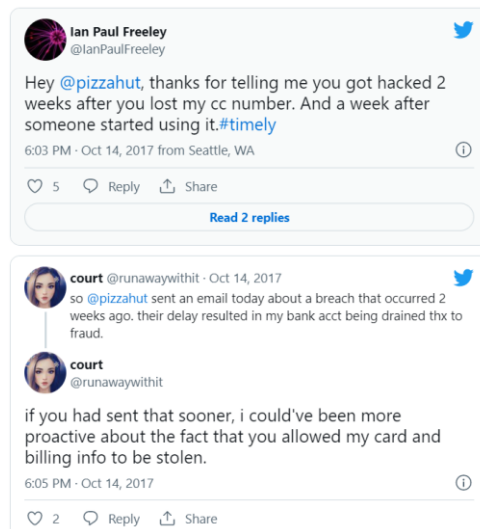
On October 1 2017, Pizza Hut suffered a data breach where their customer database was hacked and the credit card details of many customers was stolen.

"We have learned that the information of some customers who visited our website or mobile application during an approximately 28-hour period (from the morning of October 1, 2017, through midday on October 2, 2017) and subsequently placed an order may have been compromised. Reported [bleepingcomputer](#).

Source: <https://gbhackers.com/pizza-hut-hacked-fraudulent-transactions/>

Figure 6 – Pizza Hut statement on data breach

Although the company identified the issue, it took almost two weeks to report the same to the relevant customers. This is a serious case of unethical use of customer data and not protecting their privacy as promised. However, on Twitter, a few users reported that fraudulent activities were carried out with their credit card details.



Source: <https://www.bleepingcomputer.com/news/security/users-report-fraudulent-transactions-after-pizza-hut-admits-card-breach/>

Figure 7 – Pizza Hut data breach – customer response

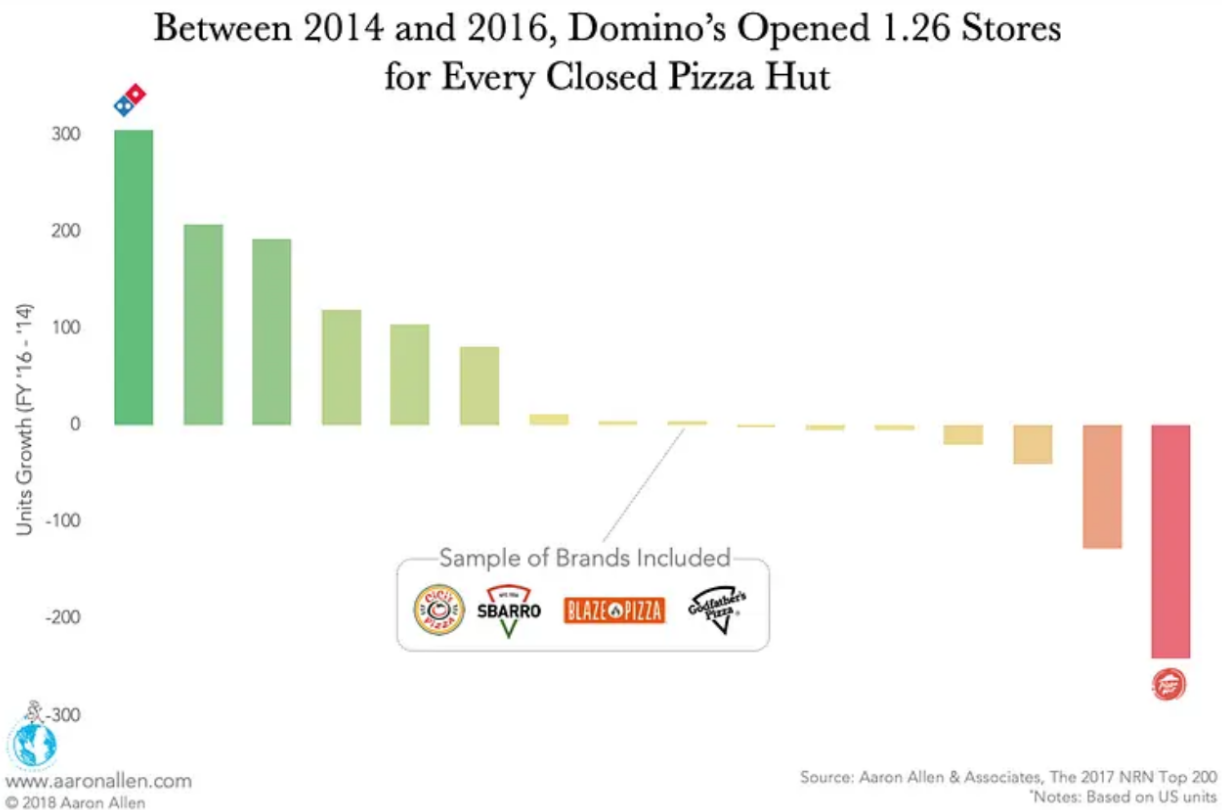
This is not the only case of such an issue that the organization has come across so far. The company faces a similar issue back in 2012 when an anonymous person stole the payment card details of over 240,000 customers.

The company could have handled the data breach issues more ethically as follows:

1. It should have informed the affected customers right away.
2. In case of any customer being affected, the company can provide suitable compensation.
3. Set up a team to work on the recovery of lost data.
4. Troubleshoot the issue and make the database secure and fool proof.
5. Convey to the customers and users regarding the effective management of data that will be followed so as to prevent such cases in future.

Pizza Hut Vs. Domino's

Domino's Pizza Inc. is a multinational Pizza company found in 1960 with over 15,000 stores worldwide in 83 countries. Although, compared to Pizza Hut it is a smaller organization in terms of number of branches, Domino's has been the prime competitor for Pizza Hut over the years. The brand in 2017, over took Pizza hut with its overall global retail sales of 12.2 billion dollars.



201Source: <https://aaronallen.com/blog/pizza-industry>



Figure 8 – Dominos Vs Pizza Hut 2014-2016

Back in 2009, Domino's was facing a major backlash with its sales being poor and its share price dropped as low as 6 dollars/share. This was due to the negative reviews of customers stating that their pizza tasted like cardboard and the sauce tasting like ketchup. From there Domino's has had a very well-planned steady path to rise up from that position and become the world number one in 2017 overtaking Pizza Hut in terms of global sales.

The company launched a campaign called "Oh! Yes, we did it" where in it documented its whole journey. The company had an in-person discussion with all of its customers who had given the negative reviews and re-designed the whole menu within a span of 18 months by incorporating new flavors and changing the way its pizzas were made. The head chefs then personally delivered these pizzas to the customers who had previously given negative reviews and asked for their opinion. They remodeled their entire supply chain of the company. As a result, their share prices went up to 2000% higher between 2010 to 2017 making it the

global leader in the pizza business. Domino's follows a process called "Fortressing", which means to add new stores in close proximity to each other in existing markets by shrinking delivery radius.

They also launched a customer blog in their website where the customers can personally post their reviews. Further, during the pandemic, the organization conducted film voting's wherein people can vote regarding for their favorite movie and win prizes. This increased their social media popularity. Even though in terms of social media engagement, Domino's lags behind pizza hut with less followers on twitter, its engaging social media content gets more likes. Further, Domino's have a very user-friendly website which they keep updating regularly. Hence, their website rank compared to Pizza Hut is far better.

	 Domino's Pizza	 Pizza Hut
Twitter followers	1.4 m	1.7 m
Number of tweets (last 30 days)	912	943
Average likes per tweet (last 30 days)	5.9	1.5
Percentage of tweets with engagement (last 30 days)	9.76%	38.81%
Alexa Website Rank	3484	13056

Source: <https://craft.co/dominos-pizza/competitors?competitors=dominos-pizza%2Cpizza-hut>

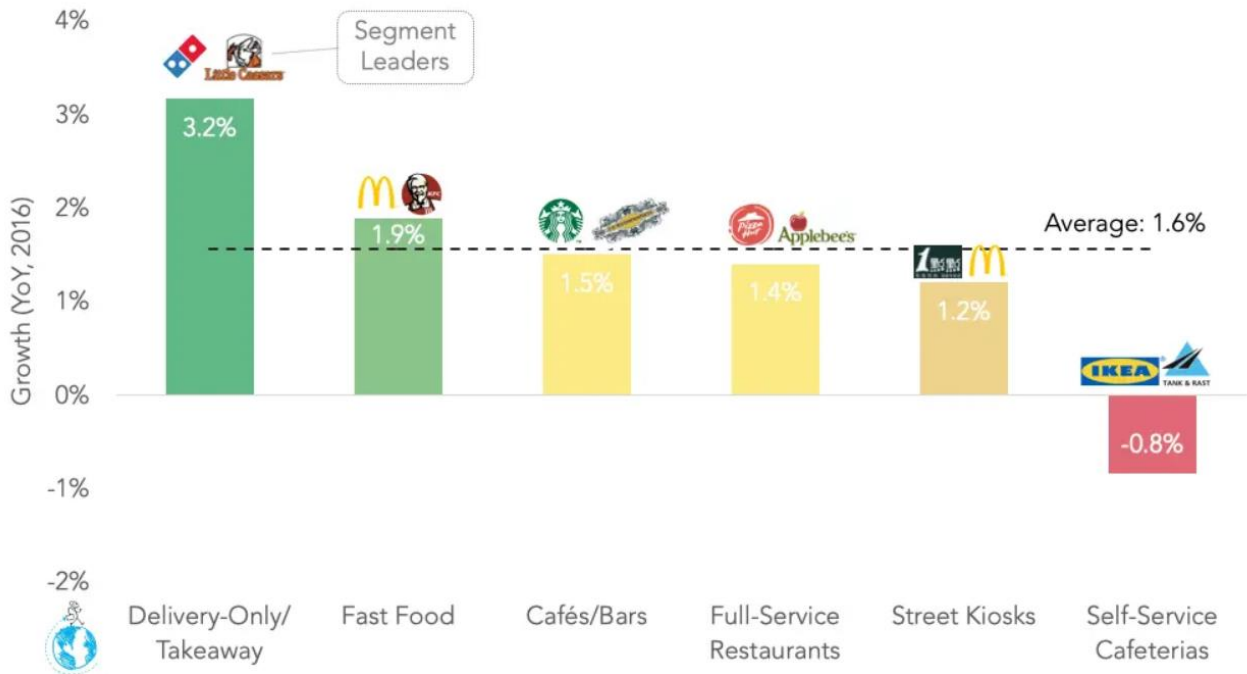
Figure 9 – Dominos Vs Pizza Hut – Social media engagement

During the pandemic, it was seen that the food industry faced a major backlash as restaurants were closed for dine-in option and people preferred takeaway. The unsaid tagline of Domino's is their 30-minute delivery which is their best marketing strategy till date. With frozen ingredients and premade pizza base, the preparation time of the pizzas were reduced drastically. Further, the organization has a good delivery team and sturdy cardboard packaging. Hence, Domino's was well prepared for the pandemic to deliver pizzas where and whenever possible. With its in-house delivery drivers, the company had full freedom over the delivery charges and gave the customers the iconic 30-minute deliveries. The company started shutting down its dine-in options and opened more smaller takeaway. This resulted in reduction in the cost for labor, electricity and other expenses spent on interiors and rent. They had also introduced GPS tracking of the orders where the customers can themselves track their order. In 2019, 65% of the company's sales came from online orders making it the number one in the pizza delivery services as well.

On the other hand, Pizza Hut was lagging behind in the delivery services as it was unprepared for a situation like the pandemic and invested the time and labor to renovate their dine-in restaurants. The Pizza Hut application is pretty old-school without much advancements and the graphical interface is not very user friendly. The website of the organization needs to be updated and the company needs to work on its social media strategy to reach out to more people and bring in some engagement.

Below is a graph that shows that Domino's is the leader in the online food delivery services and seen massive growth during 2016 with its online business. In contrast, pizza hut is still regarded as a full-service restaurant and seen much lesser growth.

Delivery-Only/Takeaway Segment Driving Worldwide Foodservice Sales



Source: <https://aaronallen.com/blog/pizza-industry>

Figure 10 – Delivery/Takeaway worldwide food sales

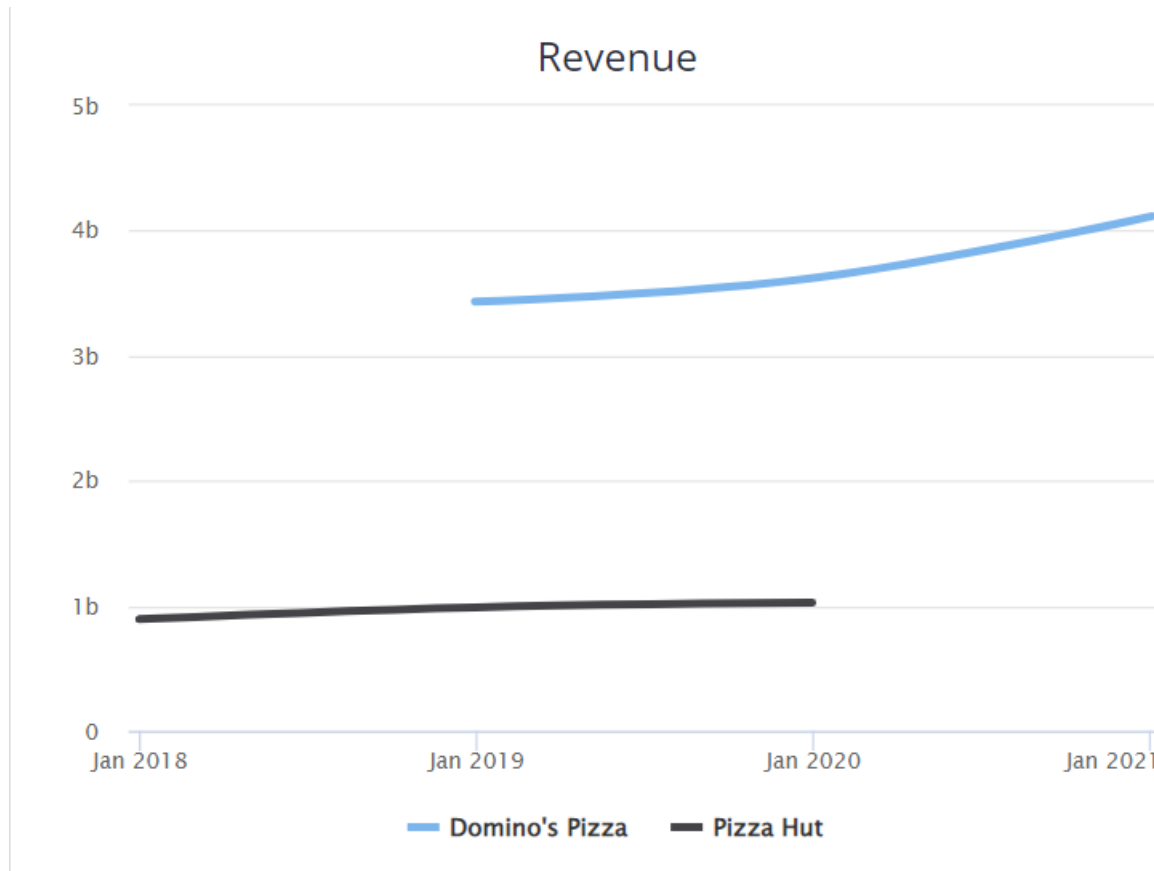
Due to its well-planned strategy, Domino's could overtake Pizza Hut and become a billion-dollar company in food industry. Not only that, Domino's shares were sold for higher prices than Amazon, Apple, Netflix and even the parent company of Google, Alphabet. The financial metric of both the organizations is shown below. It is clear that Domino's has increased its revenue by three folds compared to Pizza Hut.

	Domino's Pizza	Pizza Hut
Financial		
Revenue (est.)	\$4.1b (FY, 2020)	\$1b (FY, 2019)
Cost of goods	\$2.5b (FY, 2020)	\$457m (FY, 2019)
Gross profit	\$1.6b (FY, 2020)	\$570m (FY, 2019)

Source: <https://craft.co/dominos-pizza/competitors?competitors=dominos-pizza%2Cpizza-hut>

Figure 11 – Domino's Vs Pizza Hut Financial statistics

The revenue of both the organizations is compared below from 2018 to 2021. It is seen that the revenue of Domino's is showing a steeper rise. Whereas, the Revenue of Pizza Hut is more steady and not showing much increase over the years.



Source: <https://craft.co/dominos-pizza/competitors?competitors=dominos-pizza%2Cpizza-hut>

Figure 12 – Domino's Vs Pizza revenue 2018-2021

Recommendations

1. Pizza Hut can reduce the number of dine-in restaurants and increase the number of takeaway outlets within close proximities. This will not only increase the revenue generated through online orders but also reduce the cost of labor, rent and electricity.
2. With the current pandemic situation, online ordering and takeaway have become the new normal. The organization needs to focus on the technological side by making its existing website and mobile application more user-friendly for online ordering. As the brand has established itself as a "Dine-in" chain of restaurant, people have to be informed through advertisements that the chain is now more inclined towards online orders and delivery

services. Further, it can partner with third party delivery services such as Deliveroo, UberEATS, Zomato and introduce exciting offers and discounts to attract customers.

3. Pizza Hut needs to have a robust system that can effectively handle and store customer data such as credit card and payment details so as to avoid data breach. It needs to follow the principles of data ethics and build its data ethics framework in such a way that it creates trust among its customers.
4. The company needs to communicate with its customers in a better way so as to understand customer preferences and taste. Surveys can be conducted every now and then to collect data regarding customer preferences of toppings, crust, sauces and seasoning. Further, the classic best sellers that are no longer in the menu can be brought back based on the customer surveys.
5. The company can conduct an analysis on the eating habits and preferences of spices of various ethnic groups across the globe and introduce geographically specific menu. For instance, Indians have high tolerance to spice and prefer spicy toppings. The menu can be customized in such a way to allow Indian customers choose pizza toppings and sauces with a wide range of spice levels.
6. The brand needs to come up with a catchy tagline. As using a tagline will set it apart from its competitors.
7. The company can make use of the vast social media following it has on twitter and increase the social media traffic with engaging content that increases likes, shares, comments and retweets to gain popularity and reach new customers.
8. The preparation time of the orders needs to be reduced. While the brand is planning to shift most of its resources towards the online food delivery market, it is important to speed up the processes and deliver the products in least time possible. To accomplish this the brand can use pre made pizza base and frozen ingredients.
9. The team can hire more people in the marketing and PR department. It can hire marketing analysts who will closely monitor the sales data and give strategies on advertising and social media engagement.

Conclusion

- The current state of the Pizza Hut restaurants is analyzed with the CRISP-DM methodology.
- The areas where the organization is lagging behind is identified.
- A comparative study is made with its competitor – Domino's. Further, the path followed by Domino's to overtake Pizza Hut and become world number 1 in the Pizza business is analyzed.
- The concepts of data ethics are explained and a suitable ethical framework is recommended.
- Recommendations have been made for the organization to regain its number one position in the pizza business after careful analysis.

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