INDIVIDUAL CASE STUDY

DOMINO'S PIZZA

Introduction

Historically, Domino's Pizza has been a strong player in both the domestic US and international out-of- home pizza marketplaces. With more than 9,300 locations in 65 countries, Domino's is the number two pizza restaurant behind Pizza Hut and number one in the pizza delivery segment with market share numbers approaching 20 percent. (See Exhibit 1 for a ranking of the top 50 pizzeria brands in 2009 by sales.) In recent years, however, Domino's has come under consumer fire and, although masked by international revenue growth of 13.2 percent for the same period, the company posted a 16.3 percent decrease in domestic revenue from year-end 2005 through year-end 2009. While the economic recession could certainly be blamed at least in part for its lagging financial performance, Domino's knew that this dip was more than just an economic indicator.

In fact, the news reaching the executive suite indicated that Domino's was suffering from a negative reputation in the marketplace. Central to consumer complaints was that Domino's served low quality pizza with inferior ingredients that lacked taste. Coupled with the fact that consumers continue to become more and more educated about obesity and diet related health concerns and it was clear—Domino's had to act.

To stay competitive, Domino's addressed both the taste deficiency complaints and the growing preference for fresh products by introducing a re-formulated pizza recipe in late 2009. To do so and in a move Advertising Age called "one of the riskiest marketing campaigns of all time," Domino's launched the "Oh yes we did" campaign. The campaign quite frankly and very publicly admitted the shortcomings of its previous recipe with TV commercials showing focus group participants on hidden camera complaining that Domino's pizza "tastes like cardboard." The commercials continue by showing the first dejected and then resolved-to-do-better Domino's test kitchen chefs. Throughout the campaign, Domino's encouraged formerly dissatisfied customers to try their new pizza, even airing "live footage" of test kitchen chefs surprising the same disgruntled focus group participants seen in previous commercials at home to deliver a re-formulated recipe pizza for them to try and, not surprisingly, endorse. With a full money-back guarantee, Domino's hoped to drive sales by recouping lost customers and gaining new customers with their candid and fresh approach.

In addition to re-formulating its pizza recipe and in advance of launching its risky advertising campaign, Domino's also began a careful expansion of its menu. In 2008, Domino's launched Oven Baked Sandwiches, effectively growing its customer base and lunchtime revenues. The public was introduced in 2009 to BreadBowl Pastas, American Legends pizzas, and Chocolate Lava Crunch Cakes and, in 2011, Domino's delivered boneless chicken and wings and—via the marketing campaign for its newest menu items—"Tate," the secluded chicken chef within a pizza company (a sympathetic fellow if there ever was one). As hoped, these additions to its traditional "pizza only" menu brought not only new customers, but new head-to-head competitors as well—most notably, Subway.

Exhibit 1 Top 50 US Pizzerias Based on 2009 Sales

Top 50 U.S. Pizzerias: Sales Rankings Based on 2009 sales

Rank	Chain Name	2009 U.S. Sales (×1,000)	2008 U.S. Sales (×1,000)	% Change
1	Pizza Hut	5,000,000	5,500,000	−9.1
2	**Domino's Pizza**	**3,030,779***	**3,037,703***	**−0.2**
3	Papa John's	2,057,267	2,034,047	1.1
4	Little Caesars	1,130,000*	1,055,000*	7.1
5	Papa Murphy's Take 'N' Bake Pizza	630,000	585,000	7.7
6	CiCi's Pizza	573,000	585,000	−2.1
7	Sbarro	517,083*	545,323*	−5.2
8	Chuck E. Cheese's	437,900*	441,600*	−0.8
9	Round Table Pizza	390,000*	420,000*	−7.1
10	Godfather's Pizza	331,500*	333,300*	−0.5
11	Hungry Howie's Pizza & Subs	275,000*	279,000*	−1.4
12	Fox's Pizza Den	187,500*	195,000*	−3.8
13	Donatos Pizza	185,000*	177,000	4.5
14	Peter Piper Pizza	166,000*	164,000*	1.2
15	Mazzio's Italian Eatery	154,000*	155,600	−1.0
16	Papa Gino's Pizzeria	151,000*	153,000	−1.3
17	Jets Pizza	149,604	132,200*	13.2
18	Gatti's Pizza	140,878	150,075	−6.1
19	Pizza Pro	132,000*	132,600*	−0.5
20	Pizza Inn	122,176	132,013	−7.5
21	Villa Fresh Italian Kitchen	112,000*	109,000*	2.8
22	Pizza Ranch	109,537	101,390	8.0
23	Marco's Pizza	102,433	92,938	10.2
24	Rosati's Pizza	100,000*	95,000*	5.3
25	Wolfgang Puck Express	93,500*	88,600*	5.5
26	Ledo Pizza	82,000	76,000*	7.9
27	Greek's Pizzeria	79,000*	73,000*	8.2
28	Mountain Mike's Pizza	75,000*	76,000*	−1.3
29	Imo's Pizza	69,000*	74,000*	−6.8
30	Shakey's Pizza Parlors	65,400	60,500*	8.1
31	Me-N-Ed's Pizzeria	59,000*	61,500*	−4.1
32	RedBrick Pizza	58,000*	57,000*	1.8
33	Bellacino's Pizza & Grinders	57,000*	63,000*	−9.5
34	Famous Famiglia	56,000	47,000*	19.1
35	Monicals Pizza	55,186	54,000	2.2
36	Simple Simon's Pizza	55,000*	54,000*	1.9
37	Zpizza	55,000*	49,000*	12.2
38	Pizza Factory	51,500*	55,500*	−7.2
39	Vocelli Pizza	51,000*	56,500	−9.7
40	Straw Hat Pizza	43,855	40,000	9.6

*Estimate

(Continued)

Rank	Chain Name	2009 U.S. Sales (x1.000)	2008 U.S. Sales (×1,000)	% Change
41	East of Chicago Pizza	43,500*	50,000*	−13.0
42	Happy Joe's Pizza & Ice Cream	41,000	43,600	−6.0
43	Pizza Patron	38,000	31,000	22.6
44	Extreme Pizza	37,000	33,500	10.4
45	Monkey Joe's	37,000	27,500	34.5
46	CPK ASAP	32,390	31,705	2.2
47	Stevi B's The Ultimate Pizza Buffet	31,500	28,000	12.5
48	Pizza Boli's	30,600	30,300	1.0
49	Nancy's Pizza	29,500	32,000	−7.8
50	Mr. Jim's Pizza	29,000	30,300	−4.3

Source: *PMQ Pizza Magazine* http://pmq.com

Its recent challenges aside, Domino's has spent years carving out a significant niche for itself in its ordering and delivery processes, providing streamlined online ordering and, in 2010, bringing its e-commerce efforts in-house to respond more quickly to the changing capabilities of technology. Since its first "30-minutes or it's free" guarantee in 1973 (abandoned in 1993 due to the liabilities incurred by the accidents of rushing delivery drivers), Domino's has been known to deliver pizza fast. The "Total Satisfaction Guarantee" launched in 1993 has since been a cornerstone of the brand and states, "If for any reason you are dissatisfied with your Domino's Pizza dining experience, we will re-make your pizza or refund your money." A major key for Domino's moving forward will be proving to customers that it can maintain its exceptional delivery reputation without sacrificing its new higher standards and diversity of food.

The financial metrics through year-end 2010 show significant gains for Domino's as a result of its new market position and advertising with across-the-board (i.e., including domestic store locations for the first time since negligible growth of less than 1 percent in 2007) annual same store sales up a respectable 9.9 percent. Nevertheless, still new Domino's CEO Patrick Doyle has a challenging road ahead. Between rising food and gasoline costs, unemployment rates and diminished disposable income, the fluctuating value of the dollar, as well as the growing selection and quality of convenient and affordable frozen pizza, there are a host of issues to address beyond taste and reputation as he attempts to maintain, and possibly improve, Domino's position in the pizza industry. (Exhibits 2 and 3 provide selected financial data for Domino's Pizza.)

Company History

The story of Domino's began in December 1960 when brothers Tom and James Monaghan borrowed $900 to buy DomiNick's, a small pizzeria in Ypsilanti, Michigan. Not too long after, James traded his share of the business to Tom for a used Volkswagen Beetle. In 1965, sole proprietor Tom changed the business name to Domino's.

As luck would have it, two particularly busy and short-staffed days prompted Monaghan to implement a "simple menu" concept that eliminated subs and specialty pizzas to temporarily scale back the workload and thus provide better service. Upon review and to Monaghan's surprise, both profits and sales rose on these two days, leading Monaghan to permanently adopt the simple menu and thus creating a philosophical foundation that would serve Domino's for the next 30 years. The limited menu featured one crust type, eleven topping options, and one drink—Coca Cola—the only non-pizza item on the menu. In doing so, Monaghan stuck to his founding principles to provide quality pizza and great customer service.

Exhibit 2 Domino's 2010 Financial Highlights

Same Store Sales Growth[1]	
Domestic	+9.9%
International	+6.9%
Net Unit Growth	
Domestic Franchise[2]	3
Domestic Company-owned[2]	(1)
International	350
Total	352
Year End Store Counts	
Domestic Franchise	4,475
Domestic Company-owned	454
International	4,422
Total	9,351
Revenues	
Domestic Franchise	$173.3
Domestic Company-owned	345.6
Domestic Supply Chain	875.5
International	176.4
Total	$1,570.9
Global Retail Sales[3]	
Domestic	$3,316.7
International	2,952.0
Total	$6,268.7
Income from Operations	$227.7
Net Income	$87.9
Diluted Earnings Per Share (as reported)	$1.45
Diluted Earnings Per Share[4] (as adjusted)	$1.35
Weighted Average Diluted Shares	60,815,898

[1]Performance vs. Fiscal 2009.
[2]Excludes transfers between the Company and franchisees.
[3]Global Retail Sales represents sales by our Company-owned and franchised stores.
[4]See "Domino's Pizza Reporting Terms" on page 8 of this annual report.

Source: *Domino's Pizza, Inc. 2010 Annual Report.* https://materials.proxyvote.com

Expansion ramped up starting in the late 60s with the popular new business model of franchising. Recognizing a captive and hungry audience, Monaghan decided to expand onto college campuses across the Midwest and had five franchise locations by 1968. During this time, Monaghan was also spending a lot of time on the road observing the competition and taking what he could learn from them back home. When faced with a problem no one else had solved, Monaghan improvised and innovated to make Domino's better, for example, using a meat grinder to not only shred cheese but also mix dough nine times faster than a standard mixer.

In 1973, Domino's introduced its first "delivery guarantee," promising delivery within "a half hour or a half dollar off'' and also founded The College of Pizzarology to train potential franchisees. The 70s held several other highlights for Domino's including the introduction of the belt-driven pizza oven, the decentralization of operations, a new logo, and several acquisitions—all of which led to company growth. This momentum continued into the 80s as Domino's opened its first international locations in 1983 in Winnipeg, Canada and Brisbane, Australia. Domino's "added an average of nearly 500 stores each year through the decade," opening its 5,000th store in January 1989. Other significant developments included the addition of the deep pan pizza to the Domino's menu that helped Domino's achieve $1.44 billion in sales in 1987.

Exhibit 3 Domino's Financial Report

(dollars in millions, except per share data)	Fiscal year ended December 31, 2006	December 30, 2007	December 28, 2008	January 3, 2010	January 2, 2011
Income statement data:					
Revenues:					
Domestic Company-owned stores	$ 393.4	$ 394.6	$ 357.7	$ 335.8	$ 345.6
Domestic franchise	157.7	158.1	153.9	157.8	173.3
Domestic stores	551.1	552.6	511.6	493.6	519.0
Domestic supply chain	762.8	783.3	771.1	763.7	875.5
International	123.4	126.9	142.4	146.8	176.4
Total revenues	1,437.3	1,462.9	1,425.1	1,404.1	1,570.9
Cost of sales	1,052.8	1,084.0	1,061.9	1,017.1	1,132.3
Operating margin	384.5	378.9	363.3	387.0	438.6
General and administrative expense	170.3	184.9	168.2	197.5	210.9
Income from operations	214.2	193.9	195.0	189.5	227.7
Interest income	1.2	5.3	2.7	0.7	0.2
Interest expense	(55.0)	(130.4)	(114.9)	(110.9)	(96.8)
Other	—	(13.3)	—	56.3	7.8
Income before provision for income taxes	160.4	55.6	82.9	135.5	138.9
Provision for income taxes	54.2	17.7	28.9	55.8	51.0
Net income	$ 106.2	$ 37.9	$ 54.0	$ 79.7	$ 87.9
Earnings per share:					
Common stock – basic	$ 1.68	$ 0.61	$ 0.93	$ 1.39	$ 1.50
Common stock – diluted	1.65	0.59	0.93	1.38	1.45
Dividends declared per share	$ 0.48	$ 13.50	$ —	$ —	$ —
Balance sheet data (at end of period):					
Cash and cash equivalents	$ 38.2	$ 11.3	$ 45.4	$ 42.4	$ 47.9
Restricted cash and cash equivalents	—	81.0	78.9	91.1	85.5
Working capital	11.1	(29.6)	25.8	(31.9)	33.4
Total assets	380.2	473.2	463.8	453.8	460.8
Total long-term debt	740.1	1,704.8	1,704.4	1,522.5	1,451.3
Total debt	741.6	1,720.1	1,704.8	1,572.8	1,452.2
Total stockholders' deficit	(564.9)	(1,450.1)	(1,424.6)	(1,321.0)	(1,210.7)

Source: Domino's Pizza, Inc. 2010 Annual Report. https://materials.proxyvote.com

Perhaps the largest development of the 80s however was at the organizational level with the addition of Don Vlcek. Domino's hired Vlcek to take over the commissary—an operation of regionalized locations that produce and distribute ingredients and supplies. Vlcek streamlined the commissaries and would take the best practices of one commissary and apply them to all. "Once Vlcek had taken care of the basics, in one eight- month period he opened a new commissary a month, all with state-of-the-art equipment."

During the 90s, Domino's continued to make sweeping changes. The company introduced breadsticks to the menu, its "first national non-pizza item," and buffalo wings. In 1996, Domino's debuted its website and achieved system-wide sales of $2.8 billion. Other changes included the introduction of the Heat Wave bag and, after a series of accidents involving drivers rushing to meet their deadlines, the elimination of its 30-minute delivery guarantee.

Ready to move on, in 1998, Monaghan sold a controlling 93 percent stake in Domino's to Bain Capital, a Boston-based private equity investment firm, for about $1 billion and the assumption of approximately $50 million in debt. With that, David Brandon assumed the reins as CEO.

Domino's pushed forward through the early 2000s, relocating several stores to increase visibility and profits. Although effective, these efforts were not enough to maintain the company's position and in 2004, Domino's began trading common stock on the NYSE under the ticker symbol DPZ. Domino's experienced moderate success, won some industry awards, introduced new menu items, and improved its overall financial position throughout the rest of the decade but, financially, the chain was still floundering. Through the new interconnected online world, Domino's customers began to share their dissatisfaction with Domino's products in a new and more vocal manner. Customers believed that Domino's pizza lacked taste and quality ingredients and reported receiving poor quality delivery pizzas. Marketing Chief Russell Weiner commented, "We weren't winning against everyone on taste." In a 2009 survey of consumer taste preferences among national chains by research firm Brand Keys, Domino's tied with Chuck E. Cheese's for last place. Luckily, monumental change was right around the corner.

In response to consumer feedback, Domino's introduced a brand new pizza recipe to the US market on December 27, 2009. This new and improved pizza offered an entirely redesigned crust recipe, fresh ingredients, a new sauce, and real shredded cheese. "The best defense is a good offense," said Russell Weiner. The advertising and PR campaign was aggressive and included the launch of a new website—pizzaturnaround.com—where social media links allowed consumers to comment on Domino's new recipes. The campaign also featured television ads showing extremely critical consumers trying the new recipe for the first time and, at times, poking fun at the old Domino's pizza recipe.

In January 2010, J. Patrick Doyle, former President of Domino's USA, succeeded David Brandon as CEO and in March 2010, Domino's opened its 9,000th location.

Domino's Business Segments

Three business segments drive the sales and growth of Domino's: domestic stores, domestic supply chain services, and international. These business segments are supported by the Domino's World Resource Center in Ann Arbor, Michigan, which provides accounting, marketing, legal, franchise development, human resources support, and more.

Within the domestic stores segment are 454 company-owned stores and 4,475 franchise stores. Franchise stores are operated by entrepreneurs, each of whom own and operate an average of four locations.

The domestic supply chain services segment consists of dough manufacturing and supply chain centers—or commissaries—that produce fresh dough on a daily basis and purchase, receive, store, and deliver pizza- related food and products to all company-owned stores and 99 percent of domestic franchise stores. The domestic supply chain segment operates 16 regional dough manufacturing and food supply chain centers with each regional center serving approximately 300 stores. In addition, this segment runs one thin crust manufacturing center, one supply chain center for equipment and other operational dry goods supplies, and one vegetable processing supply chain center.

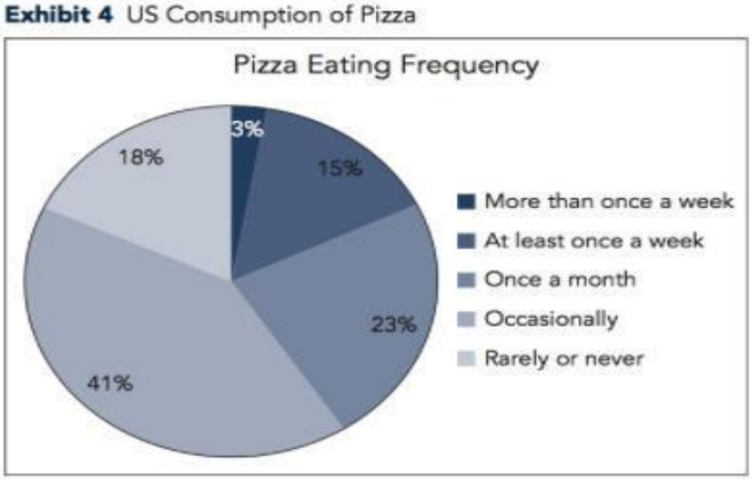
Of publicly traded restaurant brands, Domino's is the fourth largest international business. The international segment oversees Domino's network of 4,422 international franchise stores located throughout the world. The international segment also manufactures dough and distributes food and supplies (albeit in a limited number of international markets) via six company-owned dough manufacturing and supply chain centers. The principal source of revenue from international operations comes from royalty payments generated by retail sales and supply chain center sales to franchisees.

Marketplace

There are a number of companies that present Domino's with significant competitive rivalry—a number that will do nothing but rise as Domino's increases its menu offerings to appeal to a larger demographic. At its core, however, pizza remains a very popular product— appealing to a wide demographic of Americans that consider restaurants an essential part of their lifestyle. Even in the throes of the most recent economic recession, according to the National Restaurant Association, 45 percent of adults say that restaurants are a major part of their lifestyle and they will continue to frequent their favorite restaurants. A survey of 795 adults completed by Rasmussen Reports in April 2011 revealed that 40 percent of Americans eat pizza at least once per month with adults ages 30 to 49 the most frequent consumers. Married adults and parents are more likely to use takeout than adults that are unmarried and/or without children. (Exhibit 4 provides US consumer pizza-eating frequency statistics.)

The pizza segment of the food industry represents 11.7 percent of all restaurants and accounts for more than 10 percent of all food service sales. Between June 2008 and June 2009, the US pizza industry recorded nearly $37 billion in sales and the first quarter of 2010 showed an increase in pizza sales from 2009. So, while the threat of substitute products within the pizza industry remains high, pizza is an integral part of American culture and shows no sign of exiting the market. (See Exhibit 5 for US pizza sales by vendor.)

Exhibit 4 US Consumption of Pizza

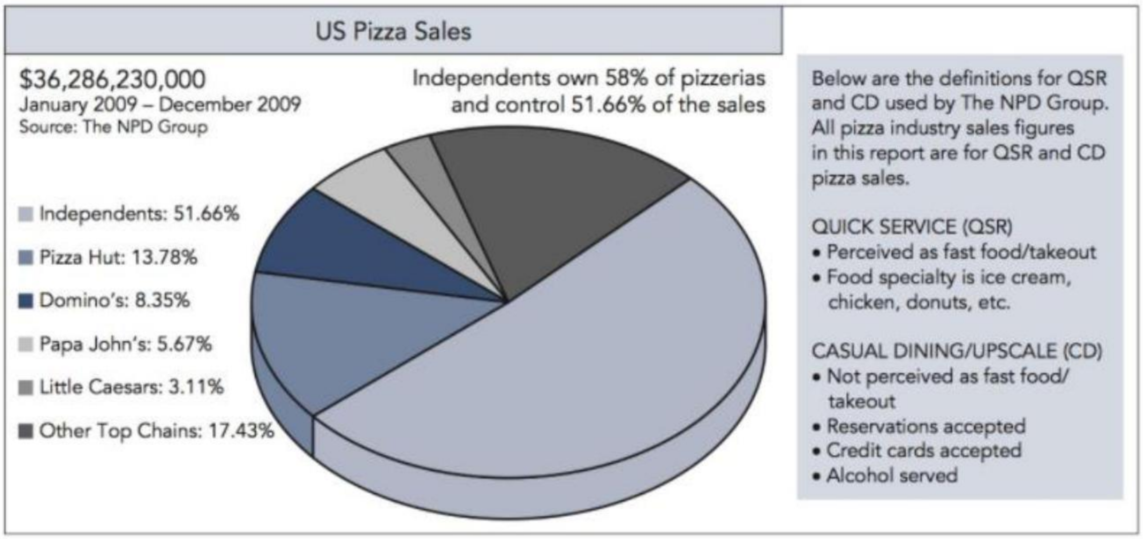


Source: Rasmussen Reports http://www.rasmussenreports.com

Domino's Competitors

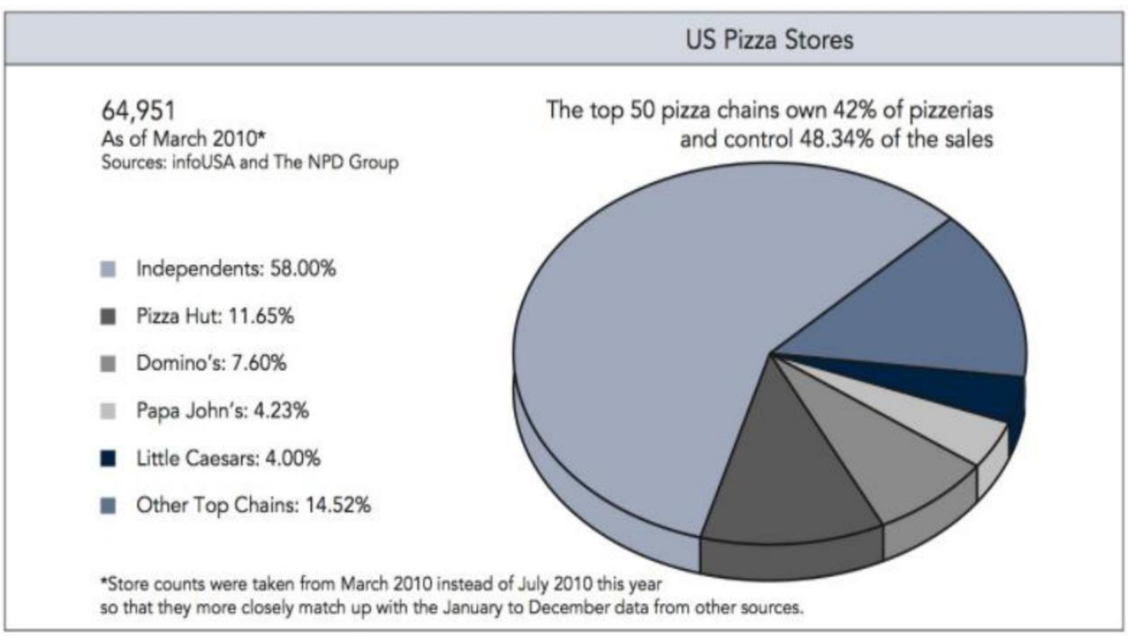
While Domino's has numerous competitors both large and small, its most significant chain competitors are Pizza Hut (Yum! Brands), Papa John's, and Little Caesars. In addition, the majority of Domino's locations also compete with various smaller, locally owned pizza restaurants as well as other fast-casual and delivery restaurants outside the pizza industry. (Exhibit 6 illustrates the number of US pizza stores by vendor.)

Exhibit 5 US Pizza Sales for 2009



Source: PMQ *Pizza Magazine* http://pmq.com

Exhibit 6 US Pizza Store Count



Source: PMQ *Pizza Magazine* http://pmq.com

Pizza Hut

Yum! Brands operates and licenses five restaurant chains—KFC, Taco Bell, Long John Silver's, A&W Restaurants, and Pizza Hut—Domino's fiercest competitor. Only two years older than Domino's, Pizza Hut has locations in 95 countries with over 13,000 store locations in total. It focuses on a variety of "ready-to- eat pizza products" that customers can customize with an assortment of toppings tailored to local tastes and culture. Pizza Hut serves a variety of products ranging from specialty pizzas to pasta, sandwiches, and chicken wings—a product also offered via over 3,000 WingStreet locations (a Yum! Brands subsidiary).

As a part of Yum! Brands, Pizza Hut's financial information is consolidated along with Yum! Brands' other holdings. In 2010, Yum! reported a 4.7 percent increase in revenues over 2009. Operating profits and net income were also up over 2009 by 11.3 and 8.1 percent respectively. Same store sales for Pizza Hut in the US increased by 8.8 percent in the same period, matching its 2008 figures and recouping the losses seen in 2009. (Limited financial data for Yum! Brands is found in Exhibit 7.)

Exhibit 7 Selected Financial Data: Yum! Brands

(In millions, except for per share amounts)			
Year-end	**2010**	**2009**	**%B/(W) change**
Company Sales	**$ 9,783**	$ 9,413	4
Franchise and License Fees and Income	**$ 1,560**	$ 1,423	10
Total Revenues	**$11,343**	$10,836	5
Operating Profit	**$ 1,769**	$ 1,590	11
Net Income - Yum! Brands, Inc.	**$ 1,158**	$ 1,071	8
Diluted Earnings Per Common Share before Special Items[(a)]	**$ 2.53**	$ 2.17	17
Special Items Earnings Per Common Share[(a)]	**$ (0.15)**	$ 0.05	NM
Reported Diluted Earnings Per Common Share	**$ 2.38**	$ 2.22	7
Cash Flows Provided by Operating Activities	**$ 1,968**	$ 1,404	40

(a) See page 29 of our 2010 Form 10-K for further discussion of Special Items.

Average US Sales per System Unit[(a)] (In thousands)						
Year-end	**2010**	**2009**	**2008**	**2007**	**2006**	**5-year growth[(b)]**
KFC	**$ 933**	$ 960	$ 967	$ 994	$ 977	—
Pizza Hut	**855**	786	854	825	794	1%
Taco Bell	**1,288**	1,255	1,265	1,147	1,178	2%

(a) Excludes license units.

(b) Compounded annual growth rate.

Source: http://www.yum.com

While Domino's remains the leader in the US delivery segment, Pizza Hut maintains the top spot in the US pizza segment with a 13.78 percent market share as of December 2009. Pizza Hut has been able to capitalize on the changing demographics and consumers focused on getting a decent meal fast through its quick serve locations. Despite slipping a few places in 2010, Pizza Hut enjoys a formidable reputation as the only quick serve pizza company on the Interbrand "100 Best Global Brands" list, providing Pizza Hut sufficient negotiating power when entering new markets, especially in China, a new focus for the brand.

Pizza Hut's goal moving forward is to become known not as a pizza restaurant, but as a "pizza, pasta, and wings" brand. To complete the transformation, Pizza Hut is working to make its menu items more competitively priced (as seen in its "$10 any way you want it" promotion), improving service times, and focusing on great customer service (via its "Heart of the Hut" program). Yum! Brands also hopes to lower administrative costs and provide a steady stream of franchise revenue by adding more Pizza Hut franchisees, thus effectively diluting its company-owned to franchise ratio. Lastly, to help gain market share throughout the world, Pizza Hut is focusing its expansion plans on China, one of the world's rapidly growing marketplaces.

Papa John's

Papa John's is the world's third ranked pizza delivery and carryout restaurant behind Pizza Hut and Domino's. Papa John's owns and franchises 3,646 restaurants (612 company-owned, 3,034 franchised) in all 50 states and 32 countries worldwide. Papa John's was founded in 1984 by John Schnatter on the premise that if you make the best pizza and price it competitively, you can sell it. Papa John's major products include pizza, breadsticks, cheese sticks, chicken strips, wings, dessert items, and beverages for delivery or carryout.

Papa John's operates through six segments: domestic restaurants, domestic commissaries (quality control centers), domestic franchising, international operations, variable interest entities, and "all other" business units. The domestic restaurant segment focuses on operations of corporate-owned locations as well as pizza and side-item product sales. The domestic commissary segment houses operations including dough production locations and product distribution centers. The domestic franchising segment is dedicated to franchise sales and support. International operations support Papa John's locations outside the US. Variable interest entities includes all entities from which Papa John's is not a primary beneficiary and includes BIBP, "a third-party entity formed by franchisees for the sole purpose of reducing cheese price volatility to domestic system-wide restaurants through fiscal 2010." Lastly, the all other business segment includes revenue-earning divisions such as printing, risk management, information systems, and related operational services.

By 1999, Papa John's had opened its 2,000th store and took over the number three spot in the US market from Little Caesars. But in the early 2000s, Papa John's hit the wall. By putting the brakes on its expansion plans, closing underperforming stores, adding chicken strips and specialty pizzas to its menu, and hiring Nigel Travis in 2005 to take over as president and CEO, Papa John's braced itself for a bumpy ride through the sluggish economy.

As of December 2009, Papa John's accounted for 5.67 percent of the pizza sales in the US. The economic recession caused another dip in revenues for year-end 2009; however, year-end 2010 numbers show a return to 2008 figures. In an effort to re-energize its brand during this period, Papa John's invested heavily in advertising, becoming the official pizza sponsor for the NFL and also signing on to sponsor three upcoming Super Bowls. In addition, Papa John's launched a highly successfully promotion for consumers to create the next Papa John's specialty pizza to be added to its menu. (Exhibit 8 provides selected financial data for Papa John's.)

Exhibit 8 Selected Financial Data 2010: Papa John's

(In thousands, except per share data)	Year Ended				
	Dec. 26, 2010	Dec. 27, 2009	Dec. 28, 2008	Dec. 30, 2007	Dec. 31, 2006
Income Statement Data	52 weeks	52 weeks	52 weeks	52 weeks	53 weeks
Domestic revenues:					
Company-owned restaurant sales	$ 503,272	$ 503,818	$ 533,255	$ 504,330	$447,938
Franchise royalties	68,358	61,012	59,704	55,283	56,374
Franchise and development fees	340	519	1,600	4,758	2,597
Commissary sales	454,506	417,689	431,650	401,081	415,392
Other sales	51,951	54,045	61,415	61,820	50,505
International revenues:					
Royalties and franchise and development fees	14,808	13,244	12,868	10,314	7,551
Restaurant and commissary sales	33,162	28,223	25,849	20,860	15,658
Total revenues	1,126,397	1,078,550	1,126,341	1,058,446	996,015
Operating income	86,744	95,218	65,486	53,072	99,446
Investment income	875	629	848	1,446	1,682
Interest expense	(5,338)	(5,653)	(7,536)	(7,465)	(3,480)
Income from continuing operations before income taxes	82,281	90,194	58,798	47,053	97,648
Income tax expense	26,856	28,985	19,980	13,293	33,171
Income from continuing operations, including noncontrolling interests	55,425	61,209	38,818	33,760	64,477
Income attributable to noncontrolling interests	(3,485)	(3,756)	(2,022)	(1,025)	(1,491)
Income from continuing operations, net of noncontrolling interests	51,940	57,453	36,796	32,735	62,986
Income from discontinued operations, net of tax	—	—	—	—	389
Net income	$ 51,940	$ 57,453	$ 36,796	$ 32,735	$ 63,375
Basic earnings per common share:					
Income from continuing operations, net of noncontrolling interests	$ 1.97	$ 2.07	$ 1.31	$ 1.10	$ 1.95
Income from discontinued operations, net of tax	—	—	—	—	0.01
Basic earnings per common share	$ 1.97	$ 2.07	$ 1.31	$ 1.10	$ 1.96
Earning per common share – assuming dilution:					
Income from continuing operations, net of noncontrolling interests	$ 196	$ 2.06	$ 1.30	$ 1.09	$ 1.91
Income from discontinued operations, net of tax	—	—	—	—	0.01
Earnings per common share - assuming dilution	$ 1.96	$ 2.06	$ 1.30	$ 1.09	$ 1.92
Basic weighted average shares outstanding	26,328	27,738	28,124	29,666	32,312
Diluted weighted average shares outstanding	26,468	27,909	28,264	30,017	33,046
Balance sheet data					
Total assets	$415,941	$393,726	$385,464	$400,885	$379,056
Total debt	99,017	99,050	130,654	142,706	97,036
Total stockholders' equity	207,200	185,037	138,238	134,938	152,395

Source: http://files.shareholder.com

Little Caesars

Family-owned Little Caesars Enterprises, Inc., a subsidiary of Illitch Holdings, owns and franchises over 2,600 units in the US and 11 other countries. As a subsidiary of a family-owned company, Little Caesars is not required to publish its individual financial information. As of March 2010, Little Caesars owned 4 percent of the US pizza store locations and was a major competitor of Domino's despite its lack of delivery service. In addition, according to Technomic Inc., Little Caesars was the fastest growing pizza restaurant chain in the US in 2009.

Approximately 80 percent of Little Caesars locations are franchises with many stores located in strip malls or other popular shopping areas. Little Caesars offers a variety of pizzas and other specialty items including crazy bread and sauce, cheese bread, Caesar dips, and churros. In addition, it also offers party catering service.

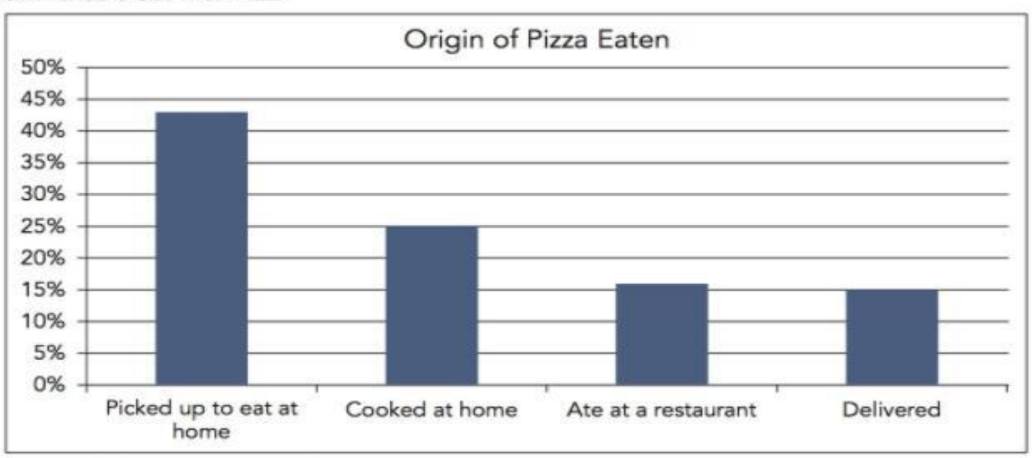
Little Caesars is known for its two-for-one "Pizza! Pizza!" marketing campaign that started in 1971 and became a permanent fixture in 1975. Little Caesars has topped a host of "Best Pizza Value in America" lists for years and years in a row and, despite some setbacks in the 90s as Papa John's climbed the pizza ladder, continues to offer some hard-to-beat competition.

Domino's Strategic Approach

As described, several major nationwide and international brand names (not to mention the local and individual pizza shops too numerous to describe here) vie for the top spots in the pizza delivery and carryout markets. These companies compete to varying degrees on taste and price with the general trend of pizza as a low-cost commodity in lower-income neighborhoods and near college campuses, and becoming increasingly higher- cost and specialty in more affluent neighborhoods.

Generally, Domino's selects locations that benefit its core strategy of carryout and delivery as it does not accommodate customers looking to dine on premises. In fact, the majority of locations usually have no more than three seats for customers waiting for a pizza—a clear indicator of its heavy emphasis on delivery. Logistically speaking, Domino's is designed to deliver pizza. Providing the support to do so is its domestic supply chain. (Exhibit 9 shows the origin of pizzas eaten in the US.)

Exhibit 9 Where Americans Get Their Pizza



Source: Rasmussen Reports http://www.rasmussenreports.com

Domino's prides itself on its consistency and logistical operations that keep overhead costs down and provide a less expensive pizza. Supply centers are responsible for producing pizza dough that is then shipped to each franchise location. To optimize pizza delivery speeds, one of Domino's strategies is to provide "routing strategies to reduce the frequency of late deliveries and help stores meet the rush with necessary product inventory." Domino's also cross trains its drivers so if there is not a delivery waiting, the driver is able to be productive in the store by "arranging store coolers according to product usage dates and to service stores by answering questions, assisting with set-up, taking phone messages and even mopping up floors."

Prior to the launch of its new ad campaign in December 2009, Domino's was generally considered the cost leader in the market. As described earlier, for much of its history, Domino's business strategy centered around offering a single product—pizza —through company-owned stores and franchises in as many neighborhoods as possible. Traditionally, expansion took the form of stores opening near college campuses, locations notorious for a special affection for low-cost pizza. According to the Pizza Magazine Power Report, as of November 2009, 8.35 percent of the pizzas sold in the US were from Domino's. The only chain with a larger percentage of sales was Pizza Hut at 13.78 percent of sales. Domino's most direct competitor for the cost leadership position in the market is Little Caesars Pizza. As a byproduct of its cost leadership strategy however, Domino's developed a reputation for poor quality pizza that was often ridiculed as the worst tasting pizza in the industry. From 2005 to 2009, Domino's market share fell more than 2 percent, from 10.62 to 8.35 percent. (Exhibits 10a and 10b provide market share information for US pizza restaurants.)

Exhibit 10a US Pizza Sales Distribution: 2005 to 2009

	YE 2005 ($)	YE 2006 ($)	YE 2007 ($)	As of July 2009 ($)	YE 2009 ($)
Pizza Hut	17.06	16.01	13.85	14.46	13.78
Papa John's	5.82	6.09	5.34	5.55	5.67
Domino's	10.62	10.02	8.68	8.29	8.35
Little Caesars	2.5	2.58	2.47	2.88	3.11
Independent	49.47	50.21	53.03	50.98	51.66
Other Top Chains	14.52	15.09	16.63	17.93	17.43

Source: PMQ Industry Reports. Pizza Power Reports 2006, 2007, 2008, 2009, 2010. http://pmq.com

Exhibit 10b US Pizza Store Distribution: 2005 to 2009

	YE 2005 (%)	YE 2006 (%)	YE 2007 (%)	As of July 2009 (%)	YE 2009 (%)
Pizza Hut	10.9	10.13	9.77	11.2	11.65
Papa John's	3.75	3.57	3.61	4.13	4.23
Domino's	7.34	6.92	6.72	7.47	7.6
Little Caesars	2.72	2.72	2.82	3.7	4
Independent	64.81	66.51	65	58.78	58
Other Top Chains	10.48	10.12	12.05	14.72	14.52

Source: PMQ Industry Reports. Pizza Power Reports 2006, 2007, 2008, 2009, 2010. http://pmq.com

As noted in the introduction, in an effort to reverse this downward spiral, Domino's instituted major changes in 2009. Previously, Domino's had structured its entire business around producing an adequate product for as low a price as possible. Today, Domino's is focused on a more palatable menu that speaks to more than just the budget-conscious mentality. Domino's "Oh yes we did" campaign repositioned the brand to better compete with the quality of Pizza Hut and the "Better Ingredients, Better Pizza" strategy of Papa John's. This strategic shift started back in 2007 with a reexamination of its business processes and product offerings. Domino's turned its attention to improving the taste of its key product—pizza—and began adding herbs and butter to its crust. Domino's also added side dishes, desserts, and even new entrees to its menu to better match competitors in the "better taste" segment of the pizza delivery market and expand overall product offerings. Part of this early strategy included an advertising campaign that directly matched Domino's sandwiches against a Subway-like chain, using then CEO David Brandon as the spokesperson. Even so, by the time its newest business-level strategy was adopted by Domino's in December 2009, its market share by sales had dropped to 8.35 percent.

Financial Results

As seen in Exhibit 2, Domino's sales distribution is 53 percent domestic and 47 percent international. In 2010, Domino's saw retail sales of $3.316 billion domestically and $2.952 billion internationally. Other than a negligible uptick in fiscal year 2007, Domino's total revenue has been in a steady decline since peaking in fiscal year 2005 with the fall of deeper domestic declines softened by overall growth internationally. Nevertheless, following its marketing and public relations blitz, not only did fiscal year 2010 revenues show a healthy return, but cost of sales decreased by 3.25 percent between fiscal year 2008 and fiscal year 2010, tempering the concerns of many investors that product expansion and enhancement would lead to lower profits.

Revenue declines aside, due to interest, repurchasing of stock, and other financial implications, after a 65 percent fall from 2006 to 2007, net income increased over the last four years. Net income was $37.9 million in 2007, $54.0 million in 2008, $79.8 million in 2009, and $87.9 million in 2010—annual increases of 42.5 percent, 47.7 percent, and 10.25 percent respectively. Furthermore, Domino's has been able to reduce its total debt over the past four years, from $1.72 billion in 2007 to $1.45 billion in 2010.

Exhibit 11 Domino's Pizza Inc., Direct Competitor Comparison

Direct Competitor Comparison					
	Dominos'	Little Caesars	Papa John's	Pizza Hut	Industry
Market Cap	891.61M	N/A	673.71 M	N/A	203.70M
Employees	10,200	N/A	16,000	N/A	2.80K
Qtrly Rev Growth (yoy)	14.80%	N/A	6.50%	N/A	9.30%
Revenue (ttm)	1.55B	N/A	1.14B	N/A	348.04M
Gross Margin (ttm)	27.77%	N/A	31.07%	N/A	24.77%
EBITDA (ttm)	253.50M	N/A	133.05M	N/A	40.88M
Operating Margin (ttm)	14.45%	N/A	8.73%	N/A	6.00%
Net Income (ttm)	87.36M	N/A	51.61M	N/A	N/A
EPS (ttm)	1.46	N/A	1.91	N/A	0.43
P/E (ttm)	10.19	N/A	13.68	N/A	16.95
PEG (5 yr expected)	1.14	N/A	1.46	N/A	1.33
P/S (ttm)	0.57	N/A	0.58	N/A	0.71

Source: Yahoo Finance http://finance.yahoo.com

While two of Domino's main competitors, Pizza Hut and Little Caesars, are privately held companies without public financial statements, Domino's can certainly be compared to its publicly held competitor—Papa John's. As noted in Exhibit 11, Domino's compares favorably to Papa John's. For 2010, Domino's had higher revenue ($1.55 billion compared to $1.14 billion), higher net income ($87.36 million compared to $51.61 million), and a lower P/E ratio (10.19 compared to 13.68) than Papa John's. Furthermore, by comparing Exhibits 3 and 8, Domino's had a higher total revenue and net income in each of the past five years compared to Papa John's. Despite the rosy picture this paints, in 2010, Domino's had approximately 9,300 stores worldwide while Papa John's had less than half that number with 3,600 stores worldwide. Considering that Domino's has 5,600 more stores, it is not surprising Domino's has higher total revenue and higher net income. In fact, when viewed on a revenue per store basis for 2010, Domino's produced [$1.571 billion/9300 =] $170,000 in revenue per store, while Papa John's produced almost double the revenue per store at [$1.126 billion/3600 =] $313,000. While profitable, in order for Domino's to provide exceptional value to its shareholders, it must create more revenue per store.

Domino's Leadership

Much of what Domino's is today is due to the strategic leadership of David Brandon, the current Chairman of the Board and former CEO and President from 1999-2010. Under Brandon's leadership, Domino's worked hard to innovate products and expand its brand scope, introducing— and at times abandoning—new menu growth vehicles. In reference to the development of new menu offerings, Brandon exhibited his managerial discretion saying, "We don't put anything on the menu unless we test it and find a consumer demand. We also balance those things with the items that fit our operational platform."

Prior to the current "Oh yes we did" advertising campaign, Domino's had primarily focused on being the delivery leader in the industry. Under Brandon, the dominant campaign had been "Get the door, it's Domino's" which spoke to a key competitive advantage of Domino's—efficiency.

As a leader, Brandon tended toward inclusive management techniques, empowering others to create strategic change and gathering feedback directly from his employees through multiple programs such as "What's Up, Domino's?" described as "a large forum for employees to listen to management, communicate their own ideas, and ask questions." Another program, "Lunch with Dave," was a monthly meeting where 12 Domino's employees, randomly selected by computer, were invited to have lunch with Brandon. Brandon describes the lunches as forums where "I listen to the things they'd like me to know about what's happening out there in our company, right and wrong." As one might imagine, he reported, "I learn a lot from that."

Despite appearing as the company spokesperson in a number of television advertisements and garnering a good deal of personal attention, Brandon showed no tendencies toward hubris that would prevent him from making effective strategic decisions. In a series of lectures that Brandon conducted with a group called "Leadership Center by Les50ns," Brandon spoke at length about his management style. Speaking specifically to his style, he said, "If I walk into a room of my most trusted advisers, and 100 percent of them feel one way and I feel the other, it's an easy decision to make."

One of the keys of the I/O economic model is the idea that "economic performance is determined by a firm's general, industry, and competitor environment and by how well the firm implements the strategy dictated by those environments." Brandon described two key philosophies that support this thinking. Upon his arrival at Domino's in 1999, Brandon saw that key performance metrics and benchmarking took place against same-store sales from the previous periods, either quarters or years. While Brandon saw value in this, he recognized the necessity to be cognizant of not only internal comparisons, but how Domino's fared versus the industry as well. Even in times of prosperity, Brandon intoned,

One of the things I do over and over and over again, is reinforce the concept that we have to get better, even during times of tremendous success. A big part of it is against who and how you benchmark yourself. We not only had to look at what our past results were, but we had to look at the world around us, look at our competitors. I wanted us to look at the best in class and hold ourselves accountable for that particular level of performance.

Another one of David Brandon's strategic strengths was in his approach to managing human capital. In "Competing for Advantage," Hoskisson et al. state, "The crux of strategic leadership is the ability to manage the firm's operations and employees effectively in order to sustain high performance over time." To support this, Brandon operated under the philosophy that you must "adapt your leadership style for each individual and find out how people want to be treated and treat them that way." By focusing on the fact that all people are different and respond differently to situations and personalities, Brandon established a one size does not fit all leadership style.

To support his belief in the importance of human capital, Brandon emphasized the need for employees to remain flexible and prepared to support the ever- changing and immensely competitive food industry. Borrowing from his days as a college football player at the University of Michigan under legendary coach Bo Schembechler, Brandon preached the necessity of preparedness with his employees through the practice of "Sudden Change." Brandon felt that all too often change had a negative connotation and that, through practice and preparation, this could be reversed.

"Employees were programmed to believe that when this very negative situation occurred, rather than responding negatively, we would actually see it as an opportunity, and get excited about it and anticipate it in a way that we knew we were going to be successful." Brandon wanted to emphasize that not only can change be positive but, if anticipated appropriately, it can also serve as a tremendous competitive advantage. "If organizations believe that change is good, when you are confronted with change, particularly change that is challenging, a great organization is going to be ready for that: anticipate that and see it as an opportunity."

Leading an organization as large as Domino's often requires its leaders to make very difficult decisions, both in times of prosperity and in times of hardship. Being ultimately responsible to stakeholders requires that the leader ensure the organization is well positioned for economic success. When Brandon arrived at Domino's in 1999 amid a strong financial period for the company, he found what he described as "a lot of fat" or excess human resources that, if excised, would provide the opportunity for greater financial gains. To remedy that situation, Brandon acted decisively and proactively. "What I did was I anticipated that, at some point, life was going to get tougher and I wanted to learn from my past experiences and be ready. So, at the end of a record year, my first as CEO, we restructured the company. We did a significant number of job reductions, because it was the right thing to do. Don't wait until you are at the edge of the cliff to do the right thing."80 Brandon's rather unconventional approach supports his philosophy.

The best way to take the risks associated with change is during the time when business is great. The organization will be more resilient, there will be more resources available to invest in that process and make it happen successfully. You'll have more focus and attention on managing that *process more carefully than when you are in a crisis-management mode. Human nature is to mortgage the problem until that point in the future when you have no other choice, and I think a lot of leaders embrace that, but it's a mistake.*

From enacting change in an instant, to making tough and often unpopular decisions, Brandon remained ardent in providing the strategic direction for Domino's. The CEO's job is to be "the chief architect of strategic direction . . . and obtain input from many people inside and outside the organization."

Brandon, the architect of the "Oh yes we did" campaign that has proven so central to Domino's current culture, stepped down as CEO in early 2010 yet remains the Chairman of the Board and an integral voice in the Domino's organization. Brandon's successor, Patrick Doyle, immediately assumed the role of CEO and, despite some initial misgivings, continued to support the campaign. In an interview with Bloomberg Businessweek in April 2010, Doyle stated, *"It wasn't a hard choice to change the pizza. But it was absolutely a calculated risk to advertise it this way. There was no Plan B. If it didn't work, there was no going back. You can't say your old pizza was bad and this new pizza is great and expect to go back to the old formula if people don't like it. My initial reaction to the campaign was "Wow, that's incredibly blunt." The more I digested the idea, the more comfortable I got. This new pizza was dramatically different. It tasted better—there was no question. We knew all we had to do was get people to try it."*

Strategic Challenges Facing Domino's

To remain an industry leader and perpetuate the current trend of success, Domino's must be prepared to handle a wealth of challenges facing nearly all channels of its business. From the constantly changing needs to the methods of communication with the customer to how Domino's innovates, reacts, and adapts to the market— there are many key determinants for future success.

As described, a major challenge facing the pizza industry relates to the demographic changes in the market. With obesity levels at record highs and the subsequent increased awareness and emphasis on health consciousness, the pizza industry as a whole must be prepared to make shifts in the quality and origin of the food it provides. Currently, organic foods is the fastest-growing sector of the American food marketplace with sales increasing 17 to 20 percent per year since 2004 (as compared to increased sales of non-organic, conventional food at only 2 percent). However, this shift to organics comes with a significant cost as estimates show that "organic food is typically 20 to 100 percent more expensive than a conventional counterpart." Domino's will face increasing pressure from the marketplace in the upcoming years to find a balance between the changing demands of consumers for healthier alternatives and the significantly increased costs associated with doing so. Ultimately, the question for Domino's will become whether it wants to maintain its position as a low-cost provider or shift its focus to a more health-conscious approach with a higher price tag.

Whether shifting to an organic product approach or remaining conventional, Domino's must also determine what product offerings are needed to keep pace with the changing tastes of the market. While Domino's has recently shown a strong willingness and ability to offer new products, ongoing decisions about not only what to add, but what to remove from the menu will need to be made using customer research and market trend analysis. While its core product will undoubtedly remain pizza long into the future, the ingredients used as well as the complementary products offered will become increasingly important to meet the changing needs of the consumer.

As Domino’s has very successfully carved out the niche as the leader in delivery, the company must be able to adapt and capitalize on the ever-changing ways that customers communicate with businesses. To date, Domino’s has adapted well, offering online ordering and an iPhone application to allow customers to place their orders without having to call to a specific location.86 While these new ordering methods are adequate for the current marketplace, technology trends are changing at an incredible pace and Domino’s must continually optimize its systems and commit the resources necessary to keep up with the latest tech trends.

Ordering aside, customers now interact with their chosen brands in entirely new ways and Domino’s must determine how to be and stay relevant in the tech world of social media. Domino’s currently has a strong social media presence with over 1.2 million Facebook Fans and over 20,000 followers on Twitter. The primary focus points of these interactions include customer service, promotions, and loyalty benefits. To continue to capitalize on this, Domino’s must remain focused on interacting and evolving with its loyal customers. Doing so will not only increase retention and grow incremental sales, but will help Domino’s anticipate tomorrow’s best and most cost-effective use of these media vehicles.

From market shifts in eating habits to increased consumer expectations regarding brand communication, the road to sustained success for Domino’s is paved with what any other organization would consider to be potholes, but that a company brought up under the tutelage of David Brandon might consider opportunities. Even so, CEO Patrick Doyle, along with the legions of franchisees and stakeholders whose livelihoods depend on the economic success of Domino’s, will face countless challenges in their efforts to maintain and expand upon Domino’s favorable position in the market.