

## **A Case Study on Pizza Hut: Competitors' Envy, Consumers' Choice**

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### **Introduction**

In recent times, due to globalization, the world has become smaller. We are indeed living in a boundaryless setting where one finds that willy-nilly, one becomes a global citizen without taking much effort. This effect has especially pronounced itself since the 1990s, where hitherto unknown cultural practices and habits of people little known from other parts of the globe have started flowing into different parts of the globe. This has led to, in many ways, sharing of cultures, values and traditions among nations, which have profusely affected the life styles and habits of people, the world over.

Among the most influenced is the eating habits of people, where indigenous food and culinary options have started making ways to different countries, thus, making the food industry a global one. The term melting pot of cultures can aptly be applied to the culinary business and among them, the fast food industry seems to top the list. The pizza industry among the fast food cuisines seems to have caught the fancy of consumers world over since it allows for innovations based on local tastes and preferences by way of toppings



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which is placed on the base of the pizza made of dough. The popularity of pizza lie in its ability to be flexible in adopting in terms of preferences across cultures and can truly be called a *glocalized* product which is lucrative to both customers and companies alike. In India alone the fast food industry is growing by 41% a year (<http://www.worldwatch.org>). Major players in the Indian fast food market are Mc Donald's, Pizza Hut, Dominos Pizza, KFC, Pizza Corner, U.S Pizza.

### **Pizza Hut : the Backdrop**

Pizza Hut (corporately known as Pizza Hut, Inc.) is an American restaurant chain and an international franchise that offers different styles of pizza along with side dishes, including, salad, pasta, buffalo wings, breadsticks, and garlic bread. Pizza Hut is a subsidiary of Yum! Brands, Inc., the world's largest restaurant company ("Our Brands". Yum ! Homepage.) As of 2012, there were more than 6,000 Pizza Hut restaurants in the United States, and more than 5,139 store locations in 94 other countries and territories around the world (*Pizza Hut Inc. Franchise website Retrieved 26 July 2012*).

Pizza Hut was founded in 1958 by two brothers, Dan and Frank Carney, in their hometown of Wichita, Kansas. By 1972, with 314 stores nationwide, Pizza Hut went public on the New York Stock Exchange under the stock ticker symbol NYSE: PIZ. In 1978, Pizza Hut was acquired by PepsiCo, who later also bought KFC and Taco Bell. In 1997, the three restaurant chains were spun off into Tricon, and in 2001 joined with Long John Silver's and A&W Restaurants to become Yum! Brands.

Pizza Hut is split into several different restaurant formats, such as, the original family-style dine-in locations; store front delivery and carry-out locations; and hybrid locations that offer carry-out, delivery, and dine-in options. ([http://en.wikipedia.org/wiki/Pizza\\_Hut](http://en.wikipedia.org/wiki/Pizza_Hut)). The oldest continuously operating Pizza Hut in the world is in Manhattan, Kansas, in a shopping and tavern district known as Aggieville near Kansas State University.

Pizza Hut is well known worldwide for its culture to fulfil the objective of satisfying each and every customer. The Mission Statement of Pizza Hut says, “We take pride in making a perfect pizza and providing courteous and helpful service on time all the time. Every customer says, “I’ll be back!” It also aims to take pride to be the employer of choice offering employees opportunities for growth, advancement, and rewarding careers in a fun and safe working environment. Pizza Hut also aims to be accountable for profitability in everything they do, providing the shareholders with value growth (<http://www.pizzahuthawaii.com/about/mission.html>).

The core values of Pizza Hut (P.E.A.R.L.S) signify the following:

- Have a *PASSION* for excellence in everything we do.
- *EXECUTE* with positive energy and urgency.
- Be individually and collectively *ACCOUNTABLE* for growth in people, customer satisfaction and profitability.
- Find reasons to *RECOGNIZE* the achievement of others and have fun doing it.
- *LISTEN* and more importantly, respond to the voice of the customer.
- Think *SAFETY* first.  
(<http://www.pizzahuthawaii.com/about/mission.html>)

The Pizza Hut restaurant operation is the face of the company. The role of operations is to maintain the highest quality for their products and give attention to the experience their customers receive. There exists a number of different Pizza Hut concepts:

- Full Service Restaurants: These are the traditional pizza restaurants offering a seated service and takeaway.
- Home Service Restaurants: These restaurants offer home delivery and takeaway.
- Restaurant Based Delivery: These restaurants are full service restaurants combined with a delivery and takeaway service.

Pizza Hut sells a range of products worldwide, such as:

- “Stuffed Crust” pizza, with the outermost edge wrapped around a cylinder of mozzarella cheese; “Hand-Tossed,” more like traditional pizzeria crusts;
- “Thin ‘N Crispy”, a thin, crisp dough which was Pizza Hut’s original style;
- ‘Dippin’ Strips pizza”, a pizza cut into small strips that can be dipped into a number of sauces; “The Edge pizza,” where the toppings nearly reach to the edge of the pizza.

Pizza Hut experiments with new products frequently, with less successful ones being discontinued. These include the initially popular two-foot by one-foot square cut pizza Bigfoot, the 16" Big New Yorker, made with a sweet sauce, the Chicago Dish Pizza and Sicilian pizza, the latter also offered in 2006 as Lasagna Pizza.

Depending on the individual restaurant size, Pizza Huts also may offer pasta dinners, such as, spaghetti and Cavatini – a mixture of Cavatelli (shells), Rotini (spirals), and Rotelle (wheels).

A new, upscale concept was unveiled in 2004, called Pizza Hut Italian Bistro. Unveiled at fifty locations nationwide, the Bistro is similar to a traditional Pizza Hut, except that new, Italian themed dishes are offered, such as, penne pasta, chicken pomodoro, toasted sandwiches and other foods. Instead of black, white, and red, Bistro locations feature a burgundy and tan motif. Pizza Hut Bistros still serve the chain’s traditional pizzas and sides as well. In some cases, Pizza Hut has replaced a “Red Roof” location with the new concept ([http://en.wikipedia.org/wiki/Pizza\\_Hut](http://en.wikipedia.org/wiki/Pizza_Hut)). Pizza Hut on May 9, 2008, created and sold in Seattle, Denver, and Dallas, “The Natural”, featuring organic ingredients. This was discontinued on October 27, 2009 in the Dallas market. It has since launched a nationwide advertising campaign. Also in 2008, Pizza Hut created their biggest pizza ever, the Panormous Pizza ([http://en.wikipedia.org/wiki/Pizza\\_Hut](http://en.wikipedia.org/wiki/Pizza_Hut)).

Pizza Hut introduced stuffed pan pizza on August 23, 2009. Unlike a regular stuffed crust pizza, cheese is not inside the crust, just pressed into the pan crust. Pizza Hut introduced the Big Italy, a pizza that is almost two feet long on August 22, 2010. In 2010, Pizza Hut came under fire when its supplier of palm oil, Sinar Mas, was exposed to be illegally slashing and burning the Paradise Forests of Indonesia to plant palm oil plantations.

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(Pizza Hut Inc. Franchise website Retrieved 26 July 2012)

### **Pizza Hut: Operational Strategies in India**

The Indian fast food market has been witnessing rapid growth on the back of positive developments and presence of massive investments. Currently, market growth is largely fuelled by the rising young population, working women, hectic schedules, and increasing disposable income of the middle-class households. Some of the unique properties of fast food like quick served, cost advantage, etc., are making it highly popular among the masses. Thus, India offers enormous opportunities for both domestic as well as international players. According to a recent research report, "**Indian Fast Food Market Analysis**", the Indian Fast Food Industry is anticipated to grow at a CAGR of around 34% during 2011-2014. Anticipating the future growth, many big international players are entering into the market by making deals with the domestic players. And those already present in the Indian market are expanding their presence in different parts of the country (<http://www.rncos.com/Report/IM264.htm>).

The new found interest in the Indian consumer market by Fast Food MNCs is only natural given the substantial size and varied customer base which provides ample business opportunities for these companies. According to a report by Maple Capital Advisors, the middle class which is the largest patron of the food service industry is expected to grow by 67 per cent by 2015, thereby increasing the 'dining

out' consumer base. The growth of malls and multiplexes has popularised kiosks and food courts as food centres. Flavour innovations used to create variety are an obvious way for players to create excitement in the category, but this needs to be done with care (Khicha, 2011).

Pizza Hut ventured to start business in India in 1996. The first Pizza Hut restaurant was opened in Bangalore, which was the first international restaurant chain to enter this category. Their operations in India are 100% franchise-based. In 2011, Pizza Hut had 131 outlets in India and plans to double the number outlets in India by 2015. The expansion is expected to happen in tier II and tier III cities. In 2011, it had 27 per cent market share of the eating-out market. (BT Online Bureau: Pizza Hut to double outlets in India by 2015, 2011).

Among the many challenges Pizza Hut is facing in recent times are:

- Constant need and assured supply for adequate manpower to run the outlets, a problem common to all operators in the sector
- Challenges of solid supply chain system
- Ever-increasing real estate cost

However, there are several drivers which provides opportunities for this sector, such as,

- Segmenting the market to make the products more affordable to a varied range of customers
- Increasing the number of offerings in the menu at affordable cost from appetizers to pizzas, pastas, and desserts. An example of the above is the introduction of a '3-course meal for Rs 99' to recruit more people into the brand by Pizza Hut (<http://www.business-standard.com/india/news/pizza-hut-wantslarger-pie/460177/&>). Another driver to increase the consumption base is affordability. Pizza Hut, for instance introduced less than Rs 100 offerings across its menu, from appetisers, pizzas, pastas and desserts.

Further to enhance its strategic hold and intent in the Indian market, the company has launched a new advertising campaign particularly to celebrate its 15 years in India. The campaign focuses on people who have been visiting the brand-outlets have also grown up over the past 15 years. The campaign highlighted the sweet and sour moments of life, when the “irresistible” taste of Pizza (of Pizza Hut) acted as a catalyst to maintain the emotional bond among people. The campaign has been conceptualised by JWT India. Well-known actors in the campaign include, well-known faces like, Rajat Kapur and Shernaz Patel. Since the beginning, Pizza Hut launched various products (apart from pizzas), such as, garlic breads and masala lemonades, pastas, skewers, shakes, mojitos, salads, gelatos, cheesecakes, and so on ([http://www.retailangle.com/News\\_detail.asp?Newsid=3652&Newstitle=Pizza Hut celebrates 15 years in India](http://www.retailangle.com/News_detail.asp?Newsid=3652&Newstitle=Pizza%20Hut%20celebrates%2015%20years%20in%20India)). Additionally, Pizza Hut planned to launch a new range of 15 different pizzas, which have been inspired from regional cuisines and flavours from around the country (<http://www.business-standard.com>, Dec 19, 2011).

### **Pizza, Made for India : Glocalization Strategy**

The major competitor of Pizza Hut is Domino’s Pizza, which believes that, people eat pizzas because they want to enjoy the authentic taste. Considering this view, though Domino’s experimented with flavours like, Chettinad Chicken in the past, it realised regional flavours did well initially due to the novelty factor, but could not sustain themselves in the long run. Hence, Domino’s answer to innovations are the cheese burst pizza or the three cheese pizza (made only for India) which are exotic, but retain the international influence.

Unlike Domino’s Pizza, Pizza Hut wants to focus on more than just pizzas. It has offerings like pasta, appetisers and a larger collection of beverages. This is part of its strategy to make the transition from a quick service restaurant (QSR) to a casual dining restaurant. And the introduction of wine and beer in a few outlets is a part of the strategy. This strategy also acts as a differentiator from their rival Dominos whose core strength has been home delivery (Khicha, 2011).

The most recent offering by Pizza Hut in India is an extended menu of 15 localised pizzas derived from regional tastes including Sev puri, Chettinadu paneer, Chicken achari, Nimbu mirchi. The new product line, marketed heavily through a 360 degree campaign, celebrates the Kansas based chain's 15 year anniversary in India. It also reflects the brand's aggression in a market where several new brands have entered the fray.

### **Pricing Strategy**

In this recessionary times, the basic strategies of fast food businesses (including Pizza Hut) is on making consumers try new products and gradually move them over to high price points. Therefore, the strategy rests upon a simple dictum – hook the customer, make him get used to a product, so that he becomes a habitual buyer.

In general, the pricing strategy in the market seems to be concentrated on providing and enticing Indian customers with rock bottom prices in order to drive volumes and higher sales in an inflationary economic environment (Bhushan & Jacob, 2012).

Further, the emphasis has also been on creating and offering 'snacking option' rather than a full-meal by Pizza Hut. It piloted the project in Chennai in recent past and is taking the product nationally across 30 cities as Pizza Hut Delivery ( PHD) outlets. Currently, the organized pizza market stands at INR 1800 crores and is growing at 20-25%.

### **Home Delivery of Pizza**

A recent innovation by Pizza Hut has been to cater to the home delivery of pizzas, and this has been done by the company by aggressively focussing on their sub-brand PHD. The firm launched the first PHD in 2008, in Bangalore on a trial basis and is now looking to aggressively expand in the delivery format. By 2015, the company aims to gain turnover of \$100 million only from the delivery segment and has plan to set up 300 stand-alone PHD outlets. The new outlets planned will be franchisee operated like the existing ones.

Thus the current strategy of the company is to focus on both home delivery and dine-in as concepts to cater to the differentiated needs of the Indian customers (<http://www.livemint.com/2011/06/22164005/Pizza-Hut-to-intensify-focus-o.html>).

### **Management Structure at Pizza Hut**

([http://www.pizzahut.co.uk/assets/redroof/files/student\\_pack.pdf](http://www.pizzahut.co.uk/assets/redroof/files/student_pack.pdf))

Pizza Hut has a fairly well led out organizational structure which at once is both tidy and functional in nature. Each of the functionaries has clear-cut role definition with their key result areas in place. Typically speaking, there are four functionaries who manage the administration and business domain at Pizza Hut. They are as follows:

**Support manager :** The Support Manager is part of the management team and will help run their business by either managing shifts or working as a key team member. The key skills required for this role include, flexibility, communication, leadership, and team work and customer service.

**Deputy designate manager :** This is the role in which most new recruits start their careers with Pizza Hut. After completing the initial training, they take responsibility for the key areas of the business, assisting the management on a day-to-day basis. They will look to get trainees involved in customer service, team training and development and business controls.

**Deputy manager :** The Deputy Manager works as part of the management team to ensure that the restaurant operates effectively, meeting sales and profit targets and quality standards. The role is also to assist the manager in ensuring that all the team members are recruited and trained to meet all quality and product standards. The Deputy Manager will take responsibility for the restaurant on the shifts that they run and will assist the manager on financial reporting and analysis of the business.

**Restaurant general manager :** The Restaurant General Manager has a responsibility for the running of the restaurant, managing the business

with full ownership and responsibility. They take care of the following functions in this role:

- Managing the financial side
- Product ordering,
- Production,
- Quality monitoring,
- Customer service, and
- Training and development of staff.

Pizza Hut has an efficient talent management and succession planning in place and as such, the same is ensured through a promotional policy of mobility of their employees to higher levels of the organizational hierarchy on satisfactory performance at lower levels. For example, Restaurant General Managers can progress on to become Area Managers who manage ten restaurants or more. They can also work on secondments at the Restaurant Support Centre in IT, Training, Marketing and Human Resources.

Pizza Hut is committed to recruiting and developing the very best people. They have a strong track record of developing their very best people at every level. Most of the Managers and half of their Area Managers started working as trainees. Promotion is on merit and ability and they have an excellent training programme to assist in people development.

### **Culture at Pizza Hut**

As already mentioned in the earlier part of the case, Pizza Hut was acquired by PepsiCo, and eventually went on to become Yum! Brand. It was found that PepsiCo management system was incongruent with the quick service restaurant business of Pizza Hut. PepsiCo was more focused on individuals instead of team success. Therefore, to build long term capabilities, coaching had to be brought as a tool to support the restaurant focused culture in a number of ways. Its effectiveness is maximum when done face to face as it requires physical proximity.

It also required partnership, and market coaches, area coaches and restaurant managers to network, mirroring the teamwork required in the restaurants (Mike & Slocum, 2003).

Considering the above requirements, a coaching cultural model with three simple processes and easy to learn acronym, EAR, was developed:

*Exploring:* Observe/ask/listen

*Analyzing:* Facts? Isolated or pattern? Root cause?

*Responding:* Teach new skills and knowledge, Provide feedback, Offer support and gain commitment

Operational leaders (not training personnel) would be responsible for teaching all coaching classes for those two levels down from them. This method had huge implications for fostering a new culture at Pizza Hut, such as:

- All the coaches had to acquaint themselves with the coaching model to teach the same.
- Demonstration by coaches on their commitment was mandatory, even before they got to teach it to others and, at the same time, they were held accountable for achieving results.
- It put the one level down coaches (the direct supervisors of the students) on notice for accountability to their immediate subordinates.
- Operators were able to bring real-life examples into the role-plays, increasing the relevance, impact, usefulness and credibility of the coaching material.
- In addition to training, coaching logs were created in each restaurant to document each coaching session, it's lessons and commitments.
- Audiotapes of coaching sessions were circulated to restaurant managers to provide real-life demonstrations.

In order to motivate employees, a successful recognition system has been instilled at Pizza Hut, based on three key elements (Mike & Slocum, 2003).

1. Starting at the top;
2. Ensuring it was continuous and ongoing, and got built into communications; and
3. Reinforcing it publicly.

At Pizza Hut, an award known as the “Big Cheese” award has been started, which included awarding a rubber cheese hat (similar to those worn by fans of the Green Bay Packers football team.) This was also numbered, and personally inscribed by the representative from the top management. The recipient had to wear it while being photographed with the existing President of the company. For example, Mike Rawlings, during his five-year tenure, handed out over 500 “Big Cheese” awards. The frequent tears, positive emotions and heartfelt gratefulness of the recipients were reinforcing both for the cultural assimilation process and for the company’s retention strategy and attrition management process.

These awards which were given during all operational meetings, helped to develop pride and goodwill among the recipients, and reinforce their positive behaviour, since it was given in open public and with positive feedback. Since these awards were spontaneous and completely voluntary (never dictated by corporate), and operational at the restaurant level, over time, the continuity of recognition started generating a sense of anticipation and “pull” for awards. It also fostered tremendous organizational commitment among the employees in the company.

### **HRM at Pizza Hut**

The cornerstone of the success of Pizza Hut was considered to lie in serving their customers, to make them satisfied. The company is aware that it is possible only when the employees, who are the most valuable resource, are provided on-the-job training and learn to work hard

with dedication. Pizza Hut wants its managers to understand the business from “the ground up” and the importance of Customer Service to their company (<http://www.pizzahut.com.au>).

The importance of talent management is understood by the company and, therefore, at the level of acquisition of talent, certain steps have been taken, which would make joining the Pizza Hut team a lucrative option for prospective employees. The reasons for joining Pizza Hut Team are as follows (<http://www.pizzahut.com.au>):

- Flexible hours, working hard, having fun, making friends and earning money.
- Independence and confidence and learning resulting in self-development and social skills.
- Opportunity to take on functions at various organizational levels and career options to move to the top of the organizational hierarchy, even go to the extent of owning a Pizza Hut franchisee.

### **Reward System**

Pizza Hut used Balanced Scorecard as the primary mechanism for allocating rewards and handing out bonuses for restaurant managers. Its reward system attempts to get aligned with the “Founding Truths” and “How We Work Together Principles” on which the coaching culture of Pizza Hut was based. First, people measurements were added to financial measurements and customer measurements, reinforcing the “putting people first” credo. It might have taken three years before all restaurant managers had been trained as coaches, but the scorecard was flexible enough to allow for measuring the results of good coaching—such as reduced turnover—within a year. Second, restaurant managers were given stock options as an outright block grant, and stock options were added to the list of performance incentives. This initiative was the first of its kind in the fast food industry. Legally limited initially in the number of stock options it could award, Yum! chose to award its restaurant managers these options before their bosses, the area coaches, were able to get theirs (Mike & Slocum, 2003).

### **Performance Measurement Policy**

To measure performance in the context of desired cultural texture of the organization, Pizza Hut developed the “Founder’s Survey,” an annual company-wide survey that measured the company on its adherence to the “How We Work Together Principles.” All employees, except restaurant managers, were invited to participate, with participation rates in the mid-80 percentages. Results were broken down by function and by levels. Managers were then required to come up with action plans for those areas where results were less than satisfactory. Second, a values-focused, 360-degree performance review system was implemented up to the restaurant manager level. Individuals were held accountable for how they lived the values (Mike & Slocum, 2003).

### **Human Resource Teams at Pizza Hut**

([http://www.pizzahut.co.uk/assets/redroof/files/student\\_pack.pdf](http://www.pizzahut.co.uk/assets/redroof/files/student_pack.pdf))

The Human Resources Department is split into several functions, which aim to support the overall business with a real ‘Passion for People’. These functions include the following: -

*The Training & Development Team:* This team aims to support and develop team members to their fullest potential, using various programmes such as, the Expert Training Programme, as well as the Developing Training Programme for all levels of restaurant management. They also conduct specific technical trainings and core and fast track management development programmes to develop and nurture the management cadre.

*The Recruitment Team:* The Recruitment Team is split into two separate teams, one recruiting for management positions within the restaurants and the other recruiting for positions within the Restaurant Support Centre.

*The Compensation & Benefits Team:* This team aims to provide all Pizza Hut employees with a comprehensive and competitive benefits package, including; fair pay, bonus, health care and pension.

*The HR Operations Team:* This is dedicated generalist HR support for the Managers and Team Members working in the restaurants.

### **The Organizational Development and Communications Team**

This team focuses on business communication, organizational development and change. It also aims to support and develop team members to their fullest potential within their Restaurant Support Centre (Pizzahut.co.uk: Pizza hut, 2007).

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