Pizza Hut Essay, Research Paper

INTRODUCTION

Pizza Hut began operation as a single pizza shop run by two brothers, Dan and Frank Carney, in Wichita, Kansas on June 15, 1958. The chain grew to 43 restaurants in 1963 and 296 in 1968. Pizza Hut went public in 1969 and was acquired by PepsiCo, Inc. in 1977. By 1981 Pizza Hut had become the largest pizza restaurant chain in the world both in sales and number of restaurants. At that time there were 5,025 domestic units and annual sales of almost $2 billion. Before 1984 Pizza Hut saw no real competition from Domino’s in the overall pizza market.

COMPETITION: NEED FOR HOME DELIVERY

The challenge of Domino’s changed in 1985 when they opened 954 new outlets bringing their total to 2,839 which was the largest expansion which had ever occurred in the food service business. Since Domino’s was essentially a delivery-only chain the pressure was placed on Pizza Hut to compete for the market. The expansion of Domino’s had led to competition in the locations where Pizza Hut had been the only local pizza shop. After the aggressive competition by Domino’s the market share of Pizza Hut declined by 3% to 15.4% in the $53 Billion fast food market. Another important reason for Pizza Hut to enter the Home Delivery market was to capture the fast growing market of Home Delivery that increased to $7 Billion from just $0.1 Billion in a span of 8 years.

In the time span of 1984 and 1985 the home delivery of pizza grew to be the newest and fastest growing fast food concept. People who had enjoyed dining out for pizza were also ordering delivery pizza for additional meals or even evening snacks. The market was opening up and becoming very successful. Pizza Hut felt they needed to jump into this area of sales. By 1986 there was a surge of business in the pizza market. The main reason for this increase was the home delivery of pizza which had suddenly gained great popularity.

FRANCHISING CONCEPT & ITS DISADVANTAGES

Pizza Hut had a logistical problem with the delivery aspect of sales being added to the market. Franchising was done for each restaurant Pizza Hut opened. The initial fee was $15,000 for each system. The company or franchise also paid 4% of monthly gross sales to the company. An investment of $466,000 to $816,000 was made when the dine-in/carryout restaurants were set up. The delivery-only units required a much smaller investments estimated at $128,500 to $198,500.

In 1967 the International Pizza Hut Franchise Holders Association was formed to provide a home group of companies which held a loyalty to their product and their sales. By 1986 the organization handled all advertising and promotions of the Pizza Hut stores. Market areas were also determined by this group and even accessed some local co-ops in prime market areas.

CANNNIBALIZATION AND MAINTENANCE PROBLEMS

The delivery phase of Pizza Hut was difficult to add to the market place without confusion and what was referred to as cannibalizing of the other phases of Pizza Hut. Dine-in/ carry out establishments were not developed to add the delivery aspect. This meant that staffing had to be changed and the possibility of creating shortages in dine-in stores was a reality. When the delivery aspect was added, the idea of store owned delivery vehicles had to be considered. Not many of the stores wanted to handle this additional charge of owning and maintaining vehicles. This meant they needed to hire drivers who were willing to use their own cars and realize the wear and tear on their cars.

In addition to the vehicles and drivers, there were other concerns about the addition of delivery to established stores or the set-up of delivery-only facilities which involved less cost and less land area. The delivery-only facilities did not need to maintain large parking lots. They only needed a small area for the employees, including the delivery people. The company tried using a computerized central ordering system called the Customer Service Center (CSC). The use of one single number to order pizza from Pizza Hut sounded good but it was less than efficient.

EXPENSIVE AND INEFFICIENT CUSTOMER SERVICE CENTER

The principle was that all calls would go into one central computer that would direct the orders by fax to the appropriate store. There was a time delay in getting the orders on the fax. There was also the inadequate use of the single number and the overflow of calls during prime order times. All things considered, the central system did not work. One of the most significant details to abandon this system was the fact that 60% of the daily calls came in during one hour — the lunch hour. Although it sounded good and looked good on paper, the idea did not work.

The convenience of having home delivery on pizzas has brought a whole new area of problems to be considered. The customer enjoys the opportunity to have pizza at home. They do not want to make many concessions for it. They want it quickly. This is why Domino’s 30 minute guarantee or free pizza has made them so popular. Although Pizza Hut did not adopt the same time limit, they tried to meet it without a guarantee. The delivery area is restricted because of making and baking time as well as driving to deliver the pizza. The locations in rural areas have an extremely restricted area of delivery because they do not want to be supplying free pizzas.

The customer has a great deal to consider when he orders pizza for home delivery. The waiting time may be short but the chance of the pizza not meeting the required or desired features of baking and the items at 100% quality increase dramatically. The traditional restaurants cannot handle the delivery phase if they have a busy restaurant phase. The company was not set up to handle restaurant style dine-in/carry-out and delivery from one location. Most of the locations are not built to handle the confusion of all three phases and they are not staffed to handle all three. It is much easier to have the delivery only or delivery and carry/out facilities in one area and the restaurant in another nearby area.

Another difficulty for the delivery phase was that the employees were new to the company and the procedures. The entire plan of delivery was new so no one had a good under- standing of what was to be done in order to run a successful delivery business. It was easy to determine what did not work but it was not so easy to make changes. The people who developed the delivery system felt their ideas were workable and they would not allow changes to come easily. Problems arise when you try to transfer ideas form paper to actual working. If the people are open minded and willing to make changes as they find things that do not work, it is easy. It is not always that easy.

We agree with the decision to go into the home delivery market but feel that Pizza Hut should have conducted a feasibility study in the areas which were being considered for this service. All areas of the country do not expect the same type of pizza and the chain has made concessions for this variety of service. There are some kinds of pizza which can be purchased in Texas which cannot be purchased in California because they are not a favorite item in that area. There are also some areas in which people prefer a certain type of service. This should be taken into consideration before the shops are built and then found to be in areas where they will not be successful. Satisfaction is the name of the game when you are trying to have a profitable business. If the customers are satisfied, they will return their business.

If they are not satisfied, they will go to some other pizza shop. There are many independent shops which are also competing for the local market. Pizza Hut needs to consider this situation as well. The bottom line is to determine what the customer wants. Each phase of Pizza Hut has its advantages and disadvantages. Customers and management will all evaluate the service and determine if the service is what the customer wants.

MARKETING MIX

Home delivery

single parents

elderly

single vehicle families

young children

several children with activities

individuals who live alone

workers who had a long tiring day

won’t interrupt chores

unexpected guests dropping in

Carry-out

workers coming home late

concerned family member taking food to sick

dine-in customer taking items to family at home

prefer to stop on way home from shopping

taking food to shut-ins

taking food to co-workers

Eat-in facilities

informal meeting place

buffet

meet friends

lunch break from formal meeting

people wanting the whole family together for meal

take advantage of in-house specials

take advantage of menu options

well rounded meal

Recommendations

General marketing trends need to be developed on a corporate level. The corporate marketing personnel need to realize that each area or region has their own particular wants and desires. The customers in these areas have tastes that may not be popular in other areas. The local franchises need to have the flexibility to use corporate marketing as a general tool but have the local interests of their customers as another marketing tool.

I think that the timings for the eat in restaurants and the delivery only outlets should be adjusted to avoid the cannibalization. The delivery chains should operate during weekdays with extended hours and during the weekends just from 6pm- 2 am. While the eat in restaurants should operate from 10 am- 10 pm during weekends. What do u think about this proposition. Give it a Thought!!!!