



ICM

JUNE 2018

INTERNATIONAL MARKETING STRATEGY – PRE-ISSUED CASE STUDY & GUIDELINES

Important notes for candidates regarding the pre-issued case study

The case study is designed to assess knowledge and understanding of the International Marketing Strategy syllabus in the context of the relevant case study. The examiners will be marking candidates' scripts on the basis of the questions set. Candidates are advised to pay particular attention to the mark allocation on the examination paper and to plan their time accordingly.

Candidates should acquaint themselves thoroughly with the case study and be prepared to follow closely the instructions given to them on the examination day. Candidates are advised not to waste valuable time collecting unnecessary data. The cases are based upon real-life situations and all the information about the chosen organisation is contained within the case study.

As the case represents a real-life situation, anomalies may be found in the information you have before you. Therefore, please state any assumptions you make that are reasonable when answering the questions. Remember, you are going to be tested on your overall understanding of the case issues and your ability to answer the questions that are set in the examination.

In order to prepare for the examination, candidates will need to carry out a detailed analysis of the case material ahead of the examination. Candidates will have sufficient time during the examination to answer all the questions, but this means that detailed analysis should have taken place before commencing the examination. The examiners are looking for clear evidence that candidates have a good understanding of the case and can use the relevant course ideas from the syllabus to answer the questions.

The copying of pre-prepared 'group' answers, including those written by other third parties, is strictly forbidden and will be penalised. Thus, questions will demand analysis in the examination itself and individually composed answers are required in order to pass.

Candidates are only allowed to take their analysis into the examination room which should be no more than TWO pages (four sides) of A4. These notes should be attached to the answer script at the end of the examination and returned.

A copy of the pre-issued case study material will be available in the examination. Candidates are NOT permitted to take into the examination the downloaded case study or any other notes. Candidates should not attach any other additional information in any format to their answer script. Any attempt to introduce such additional material will result in the candidate's paper being declared null and void.



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CASE STUDY – PIZZA WARS

Introduction

Until 1996, Pizza in India was synonymous with only a breaded dough base slathered with some ketchup. Since 1996, there was a proliferation of 'high-priced branded' pizzas on the market, with the entry of international pizza chains.

Domino's and Pizza Hut, the two big US fast food chains, entered India in 1996. Each claimed it had the original recipe as the Italians first wrote it and were trying desperately to create brand loyalty. Domino's and Pizza Hut tried to grab as large a slice of the pizza pie as possible.

While Pizza Hut relied on its USP of 'dining experience', Domino's USP was a 30-minute delivery frame. To penetrate the market, both the players redefined their recipes to suit the Indian tastes. Domino's went a step ahead by differentiating regions and applying the taste factor accordingly. Domino's also made ordering simpler through a single toll-free number throughout the country.

Domino's and Pizza Hut expanded their market ever since they entered India. Domino's had grown from one outlet in 1996, to 101 outlets in April 2001. Pizza Hut too, which began with just a single outlet in 1996 had 19 outlets in 2001.

Background

Domino's entered India in 1996 through a franchise agreement with Vam Bhartia Corp. The first outlet was opened in Delhi. With the overwhelming success of the first outlet, the company opened another outlet in Delhi. By 2000, Domino's had a presence in all the major cities and towns in India. Pizza Hut entered India in June 1996 with its first outlet in Delhi.

Initially, the company operated company-owned outlets. However, keeping in line with its worldwide policy where Pizza Hut was gradually making a shift from company-owned restaurants to franchisee-owned restaurants, Pizza Hut made the shift in India too. Pizza Hut had five company-owned franchisees – Universal Restaurants Pvt. Ltd. (Delhi, Uttar Pradesh and Rajasthan), Specialty Restaurants Pvt. Ltd. (Punjab), Dolsel Corporation (Gujarat, Karnataka and Andhra Pradesh), Pizzeria Fast Food Pvt. Ltd. (Pune and Tamilnadu) and Wybridge Holdings (Mumbai).

Positioning Wars

When Domino's entered the Indian market, the concept of home delivery was still in its nascent stages. It existed only in some major cities and was restricted to delivery by the friendly neighbourhood fast food outlets. Eating out at 'branded' restaurants was more prevalent. To penetrate the Indian market, Domino's introduced an integrated home delivery system from a network of company outlets within 30 minutes of the order being placed.

However, Domino's was not the trendsetter so far as home delivery was concerned. Delhi-based fast food chain, Nirula's was the first to start free home delivery in 1994. But where Domino's stole the market was its efficient delivery record. Goutham Advani (Advani), Chief of Marketing, Domino's Pizza India, said, "What really worked its way into the Indian mind set was the promised thirty minute delivery". Domino's also offered compensation: Rs.30/- off the price tag, if there was a delay in delivery. For the first 4 years in India, Domino's concentrated on its 'Delivery' act.

For its delivery promise to work, Domino's followed an 11-minute schedule: one minute for taking down the order, one minute for pizza-making, six minutes oven-time, and three minutes for packing, sealing and exit. Pizza Hut, on the other hand, laid more emphasis on its 'restaurant dining experience'. It positioned itself as a family restaurant and also concentrated on wooing kids. Its delivery service was not time-bound.

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A company official said, "The pizza making process takes about 20 minutes and since we don't usually deliver to places which are beyond the reachable-in-half-an-hour distance, customers can expect home delivery within 45 minutes". Moreover, analysts felt that pizza was something that just was not meant to be delivered. Said Vivek Sure, Projects Manager, Pizza PizzaExpress, "If you don't eat pizza fresh, it turns cold and soggy". However, Domino's seemed to have overcome this problem through its delivery pack called 'Domino's Heatwave'.

Localising the Menu

Since its entry into India, Domino's introduced nine new toppings for pizzas to cater to the local tastes. Different flavours were introduced in different parts of India. Advani said, "The Indian palate is very definitive – people are extremely finicky and choosy, not too willing to experiment. Food tastes vary from region to region. To capture the market, we had to localise flavors". Thus, Deluxe Chicken with Mustard Sauce and Sardines were confined to the East, Mutton Ghongura and Chicken Chettinad to the South and Chicken Pudina to Mumbai. Butter chicken, Makhani Paneer and the Chatpata Chana Masala were confined to the North.

Very soon, Pizza Hut followed Domino's and offered customised Spicy Paneer and Chicken Tikka toppings. Apart from this, it also opened a 100% vegetarian restaurant at Ahmedabad, a one-of-its-kind worldwide. The restaurant also offered a special Jain menu, which did not have a single root-based ingredient, to fit in with the food habits of Jains. Another city-specific adaptation of its menu by Pizza Hut was the restaurant in Hyderabad, (Andhra Pradesh) which offered Halal meat and chicken only with no beef and pork products in the menu.

Pricing and Promotional Wars

Domino's sold a 12" Pizza for Rs.265. Pankaj Batra, Marketing Manager, said, "Indians are value-, not price-sensitive. We need to offer comeback value to our customer". The high price was attributed to the high quality of ingredients used. For instance, Domino's sourced its Pepperoni and Jalapeno needs from Australia and Spain respectively.

However, with competition increasing from Pizza Hut, Domino's introduced price cuts, discounts and freebies to attract the customers. In 1998, Domino's introduced the Pizza Mania scheme where it offered a large pizza for Rs.129/-. The demand was overwhelming and the company sold close to 5,000 pizzas in the first week of its launch. During late 1998, both Domino's and Pizza Hut were trying to lure the customers with discount coupons by issuing such coupons through several schemes. An analyst said, "Even then, the prices are too high. Globally, fast food chains only succeed when they bring their prices down to the same level as the street food".

However, both Domino's and Pizza Hut were concentrating more on database marketing and below-the-line activities and special offers. Domino's was spending 50% of its total marketing budget on special offers and discounts along with delivered direct mailers and pizza making training classes.

Domino's also had a tie-up with Discovery Channel under which the channel advertised its pizzas while Domino's put the channel's name on its mailers. Domino's conducted pizza making classes for school students. In 1998, it offered a clock to all its customers who had bought Rs.15,000 worth of pizzas throughout the year. A company official said, "Database marketing is an important part of our strategy. We have a special cell analysing our database to look for repeat and loyal customers".

In 1998, Pizza Hut also launched a promotional campaign to attract the customers. It had a 'Pan In Your Name' contest where it offered a free pizza to anybody with the word Pan in his/her name – for example, Pankaj or Panandikar. In April 2000, Pizza Hut launched its innovative Pizza Pooch Menu and a Pizza Pooch Birthday Party package exclusively for kids in the 6-10 age group. Batra said, "There is a specific reason to cater to this segment. Though, at this age, children are under their parents' guidance, they perceive themselves to be teenagers – and have the ability to choose or demand a particular brand of their own choice". The Pizza Pooch menu included a wholesome delicious meal and a gift for the child. The menu was intricately designed with pictorial games. A free set of crayons was also provided to keep the children occupied while their parents dined.

The campaigns were eye-catching with cartoon characters on the mailers, hoardings and print advertisements where the cartoon characters were aimed at matching varying moods of kids. The Pizza Pooch birthday package was full of fun and excitement. The birthday party included a well-decorated area within the Pizza Hut outlet with several gifts for the children. The party was conducted by a trained host with lots of games, prizes and a special gift for the birthday child.

In March 2000, Domino's slashed prices of pizza by 40%. The price of a regular pizza with three toppings was cut from Rs.225 to Rs.130. In October 2000, Domino's ran a scheme, where it gave away two pizzas for the price of one, within five days of placing an order. During the same time, Pizza Hut launched a 'one rupee pan deal' scheme.

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Under the scheme, for every pan pizza purchased, another was given away for Rs.1. In November 2000, Pizza Hut introduced a scheme called 'barah nahin to tera' (if not served in 12 minutes, it is yours free). The scheme offered a speed lunch in 12 minutes for Rs.89. One second over 12 minutes guaranteed that the customer would get it for free.

Domino's supply chain management enabled it to cut costs. In late 2000, it revamped its entire supply chain operations. This enabled Domino's to slash prices. For instance, the price for a no-frills cheese pizza was down from Rs.75 to Rs.49. A 10" pizza with at least three toppings was available for Rs.119 as against the earlier price of Rs.225.

Brand Building through Advertising

Domino's and Pizza Hut initially restricted their ad strategy to banners, hoardings and specific promotions. In August 2000, Domino's launched the 'Hungry Kya?' (Are You Hungry?) sequence of advertisements on television.

A company official said, "We realised that a pizza couldn't be slotted – it could be a snack; then again, it could also be a complete meal". The only definitive common link between Domino's pizzas and eating was the hunger platform.

The launch of 'Hungry Kya?' campaign coincided with Domino's tie-up with Mahanagar Telephones Nigam Ltd. (MTNL) for the 'Hunger Helpline'. The helpline enabled the customers to dial a toll-free number from any place in India. The number automatically hunted out the nearest Domino's outlet from the place where the call was made and connected the customer for placing the order.

The number also helped Domino's to add the customer's name, address and phone number to its database. This was followed by Pizza Hut's first campaign on television in July 2001, which said, 'Good times start with great pizzas'. The ad was aired during all the important programs on Star Plus, Sony, Sony Max, Star Movies, HBO, AXN and MTV.

Pizza Hut planned to spend between Rs.70-75 million on the ad campaign in 2001. Said Pankaj Batra, "The first ad campaign on TV defines Pizza Hut as a brand, and what it offers to its existing and potential customers. Once the awareness of this message is high, we will focus on other facets of the brand and its offerings".

Going Places (Literally)

By March 2000, Domino's opened 37 outlets all over India. Between April 2000 and February 2001, Domino's set up 64 more outlets in India. Delhi had the maximum number of outlets – 17, followed by Mumbai with 13.

Domino's had the largest retail network in the fast food segment in India – with 101 outlets across 40 cities. Domino's had a tie-up with a real estate consultant, Richard Ellis, to help with locations, conduct feasibility studies and manage the construction.

It was also looking at non-traditional outlets like large corporate offices, railway stations, cinema halls and university campuses. In early 2000, Domino's had opened an outlet at Infosys, Bangalore, which was very successful. It also had outlets at cinema halls – PVR in Delhi, Rex in Bangalore and New Empire in Kolkata. By January 2001, Pizza Hut had 19 outlets across India.

In a move to expand further, Pizza Hut planned to open an additional five restaurants in Mumbai and 30 restaurants across major cities in India, by the end of 2001. Tricon announced that the company would invest Rs.30 million on each of the restaurants.

In March 2001, Pizza Hut opened its first three-storeyed 125-seater dine-in restaurant at Juhu in Mumbai. A company official said, "We are expanding the number of restaurants across the major cities to cater to today's youth which has taken to pizzas as a cuisine".

Difficult times

Since the success and growth of Pizza Hut and Domino's in 2001 in India, the country has become one of the fastest growing economies in the world. This growth has resulted in increased standards of living and growing choices for consumers of fast food and for eating out. Both Domino's and Pizza Hut are well established brands, however, consumers in India tend to be driven by economic choice and a preference for Indian food, the ingredients of which are more attractive. This said, the restaurant and fast food sector has seen the introduction of Mexican, Italian and Japanese foods for example, which have given much more choice, especially to the younger market. Many new restaurant chains have emerged, such as Red Chilli's and Barbeque, increasing the pressure on Fast Food chains to retain their market share. Pricing has also become more competitive, however, this has been offset by increasing overhead costs, especially in cities like Mumbai.

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The result of all this is that both Domino's and Pizza Hut have been facing challenges from local competition and more choice. Increasing labour and ingredient costs have increased overhead costs. There is, therefore, continued pressure to keep prices competitive without compromising the quality of the products served, which are not always available locally, increasing pressure on prices. Both chains have had to adopt strategies of making constant offers and promotions to attract customers. Growth of sales for both companies has fallen and become much slower as they continue to retain their market share.