

How Domino's Delivered a Tasty Turnaround

These are tough times for fast-food chains that specialize in delivering lots of calories for a little money.

Rising commodity prices mean the costs of their inputs are rising sharply. Consumers aren't exactly in an expansive mode. The health brigades are legion and rising in numbers. Now, a group of killjoys is coming after Ronald McDonald, arguing that the now-ancient mascot is pitching unhealthy grub to kids. (Duh!)

Then add in the whole slow food, locavores, organic food, sustainability, Whole Foods, farmer's markets, food truck, gluten-free, sugar-free, anti-Supersize, Food Network movement. That's a recipe for tough going for stalwart burger, pizza and sandwich chains.

And yet some purveyors of chow that is less than healthful or wholesome are thriving, including Domino's Pizza. The chain's stock is near a 52-week high. It recently filed a decent earnings report. And this week came news that savvy investor Nelson Peltz, the turnaround investor who is chairman of Wendy's/Arby's Group, has taken a nearly 10 percent stake in the company.

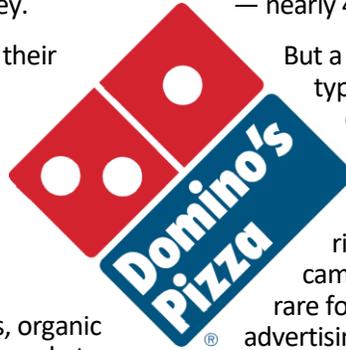
All this may be surprising for a company whose product has been regarded by many consumers as not all that indistinguishable from the cardboard box in which it arrived. But as Aaron Task and I discuss (and taste), Domino's revival as a company and a brand rests on a few pillars.

The first is familiar. As is the case with many established brands that have long since saturated the U.S. market, Domino's is now a story of a stagnant home market and a thriving global one. Check out the company's global footprint: "Domino's currently has over 4,000 stores outside of the United States in over 60 international markets, and we're still growing!"

It has three stores in Haiti, and dozens in Malaysia. Rising incomes abroad, rising appetites for pizza, and a falling dollar translate into excellent ex-U.S. results. In its most recent quarter, Domino's reported the same-store sales in the U.S. fell 1.4 percent compared to the year-before quarter. But, "International same store sales grew 8.3% in the first quarter, marking the 69th consecutive quarter of same-store sales growth for this division."

While total U.S. sales slumped one percent in the quarter, total international stores rose 15.3 percent — and that's not including the impact of a lower dollar. In the first quarter of 2011, Domino's shut a net 20 stores in the U.S. and opened a net 48 stores overseas. The upshot: today,

4,470 of the company's 9,379 stores are outside the U.S. — nearly 48 percent.



But a second factor in Domino's revival is less typical. Confronted with evidence that customers too frequently found its product to be subpar, Domino's didn't try to spin, or change the subject, or make subtle adjustments. Rather, in a calculated and risky strategy, the company embarked on a campaign to confront the image head-on. It's rare for large publicly held companies to craft advertising and marketing plans that come across like Maoist self-criticism. But that's what Domino's did. Starting in early 2010, Domino's rolled out a new and improved recipe in a campaign that showed customers discussing how they felt the pizza was "devoid of flavor." Other ads featured CEO Patrick Doyle talking about how it was unacceptable that pizzas sometimes showed up at customers' doors as nothing more than a hot mess.

This may sound like a subplot from *Mad Men*. But it was an extraordinarily unorthodox move for a well-established company. After all, who airs an ad in which customers are shown slagging on your pizzas? Writing in *Slate*, Seth Stevenson, "it's hard to recall another recent ad in which a company self-flagellates with so much gusto."

But in a world of artifice, spin, and cynical, there is something remarkably refreshing about a fast-food giant acknowledging that the industrial processes it has been using to funnel cheap starch into our gullets can produce a result that is less than optimally delicious. And for Domino's, taking a step back and realizing that some of its output is nasty, bordering on just-isn't-right, was long overdue. I mean, a bread bowl stuffed with pasta? Really?

Now, in New York, the presence of Domino's is regarded as something of a stunt. Virtually every block houses a pizza joint where you can get a cheap, excellent, fresh slice. There are more Italian masters dishing out upscale brick-oven, wood-fired, thin-crust pizza than there are Italian masters in the Metropolitan Museum of Art.

But for the sake of journalistic investigation, we did something I haven't done for nearly 20 years: we ordered in from Domino's. The pizza, pepperoni, half mushroom, half green pepper, actually wasn't bad. The mushrooms were fresh, not canned. The cheese actually tasted like cheese. Entirely edible. The wings had identifiable spices. But there's still work to be done. The cinnamon bread with the tub of icing pales in comparison to a piping hot Cinnabon's.

Question (50 word response, typed): Explain in your own words what Dominos did to turn around their company. Why was this such a bold strategy?