Finance

MMS – III 25-10-2010.

Common Subject for All Specialization

Strategic Management

SM 03

Total No. of Printed Pages: 5

Total No. of Questions: 6 Maximum Marks: 60

Duration (hrs): 3

Notes:

1. Question 1 and 6 are compulsory
2. Answer any 2 from the remaining four questions.
3. Figures to the right indicate maximum marks.
4. Marks will be deducted for quoting verbatim from the cases.

Q1 Read the given case study and answer the questions given below. 20

Rethinking Domino's Expansion Plan

"It is a lesson for every retailer. Unviable units should be shut down. A pizza joint or a burger joint should realize that in a fast expanding market, they are not just competing with outlets which have similar interests but also with other kinds of food outlets as well."

– **Arvind Singhal, MD, KSA Technopak**

In May 2001, Pavan Bhatia, CEO, Domino's Pizza India Ltd. (Domino's) stepped down from his post. Earlier, in March 2001, at a board meeting, Domino's top management concluded that 'Pavan Bhatia's performance during his 18-month tenure was not up to the mark.' The board felt that Pavan Bhatia had initiated an expansion strategy that was 'reckless and not properly thought out.' However, many analysts did not agree with the board's conclusion. They felt that the board was not considering the possible long-term benefits of Pavan Bhatia's strategy.

During March 2000-January 2001, Pavan Bhatia opened Domino's outlets in small towns and cities. Pizza consumption in these places was very low. Analysts felt that even those willing to opt for the product found the price unacceptable.

The cost per meal was too high. In September 2001, due to low footfalls and lower volumes, Hari Bhartia planned to shut down Domino's outlets not only in some small cities but also a delivery outlet in the wealthy Gujranwala Town in North Delhi.

One of the two outlets in Ludhiana was also planned to be shut down.

Sky is the Limit

In November 1999, Pavan Bhatia took over as the CEO of Domino's. He seemed to be very ambitious and wanted to make Domino's the largest fast-food chain in India. Pavan Bhatia went about opening Domino's outlets across the country. The number of outlets multiplied four fold to 100 between March 2000 and January 2001. It was the fastest growth Domino's had in any of the 63 countries it operated in. From an average of four stores every year in its first four years of operation, Domino's expanded to more than 100 outlets in 10 months across 30 cities. Domino's entered into an agreement with a real estate consultant CB Richard Ellis to help with locations, conduct feasibility studies, and manage the construction.

Pavan Bhatia said, "We are in the business of selling pizzas, not hunting for real estate. And one of the biggest impediments in retailing is real estate, so we decided to hand over the entire real estate operations to estate consultants CB Richard Ellis." Pavan Bhatia realized that fast track growth could be achieved only by focussing on the core business of selling pizza.

He said, "We realised we'd be wasting too much time, money and resources trying to do it all ourselves. For instance, just acquiring a bunch of permits for each store in each city is itself a big job. Then there are the brokers, city laws, markets, licensing, title, infrastructure, water, power, lease agreements, signage and most important, dealing with competing restaurants."

CB Richards not only managed to take care of all these hassles but also furnished the outlets. Domino's also opened outlets at large corporate offices, cinema halls and university campuses. In early 2000, Domino's had opened an outlet at the corporate office of Infosys, Bangalore, which was very successful. It also had outlets at cinema halls – PVR in Delhi, Rex in Bangalore, and New Empire in Kolkata.

Pavan Bhatia wanted quantum growth and felt that Domino's needed to tie up with airports, railway stations and petrol pump stations. Incidentally, CB Richards was already working with oil companies, advising them on how to go about making their petrol pumps ready for competition once private players came in. CB Richards made a recommendation to Indian Oil Corporation (IOC) to let Domino's operate in its petrol pump premises.

In December 2000, Domino's entered into an agreement with IOC to provide food products at the latter's 7,500 outlets across the country. In early 2001, Pavan Bhatia signed an agreement with Steve Forte, CEO, Jet Airways, to launch their 'ultimate deep dish,' and 'sweetie pie' products on Jet Airways flights. Pavan Bhatia said, "For Domino's, sky is the limit. We like to deliver hot, fresh pizzas everywhere, anytime. This tie-up with Jet Airways takes our commitment to customers on the move even a step further."

Pizza Hut's Expansion Strategy

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. This policy helped the company to reduce the huge costs in setting up new outlets. Pizza Hut had four 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).

By March 2001, Pizza Hut had 20 outlets. In the same month, Pizza Hut announced its plan of opening 30 more outlets in India by 2001 end, through franchisee route. By March 2001, Pizza Hut had 13,000 outlets across 90 countries.

What Went Wrong?

Domino's officials felt that there was nothing wrong with increasing the number of outlets. Hari Bhartia said, "We needed to grow to effectively utilize the expensive back-end infrastructure (like distribution centres) that we had set up by March last year (1999)." However, analysts felt that the growth had taken place on a business model that was not able to support it. Unlike other fast-food chains, Domino's operated on company-owned outlets basis, rather than franchisee route or a mix of both. (Refer Box for Pizza Hut's expansion strategy) Domino's officials argued that this ensured quality and the ability to deliver on time, as the company promised..

But this also meant that Domino's had to invest a huge amount in real estate and equipment for each of the new outlets. There were also other overheads such as salaries, keeping inventories, and huge marketing expenses to attract consumers. To earn a return on these investments, sales in each new outlet had to reach a viable level quickly. Or else, the operation could soon become unviable. It also meant that profitable outlets would end up subsidizing the non-profitable ones. Location of the outlet was an important determinant of profits. Analysts felt that, in its race to dominate the pizza business, Domino's took some wrong steps.

For instance, the outlets in Meerut (Uttar Pradesh) and Ghaziabad (Uttar Pradesh) were located in areas that were not very lucrative. Moreover, some outlets were located far from the nearest commissary.This resulted in a logistical lapse and hence, huge transportation costs. Analysts felt that the worst mistakes were made in Sri Lanka. Domino's invested US$2 million (Rs. 94 million) to open six outlets.

To become viable, each outlet had to earn minimum threshold revenue, which according to some analysts, was in the range of Rs. 10,000 – Rs. 16,000 per day. This meant an average footfall of 100-160 per day.

The outlets would run into losses, if it was not met. According to reports, three of the six outlets in Sri Lanka were under-performing. Analysts felt that Pavan Bhatia believed in spending money to create hype about the brand. For instance, Domino's opened 15 outlets on a single day in early 2000.

And, as it was customary to have outlets inaugurated by film stars, Domino's spent in the range of Rs.0.3-0.5 million on each film star to inaugurate one outlet. He also initiated an all-India brand-building exercise. Besides TV campaigns, the exercise included the installation of a unique, single toll-free number to order pizzas.

The number ensured that the call would be diverted to the nearest Domino's outlet and the customer didn't have to remember numbers of specific outlets. Analysts felt that the combination of national advertising and the single toll-free number led to discontent amongst customers who were attracted to dial, but discovered that no outlet existed in their city or town. Many analysts argued that the toll-free number would have worked if Domino's had 1000 outlets. Also, the all-India campaign did not justify the needs of specific outlets or regions. Many analysts felt that there was nothing wrong with Pavan Bhatia's expansion plan.

Commenting about the expansion, a consultant associated with the expansion plan said, "One has to take risks to reach economies of scale. Domino's also shook up competition when it reached a target of 100 outlets."

According to a company handout released in early 2001, the increase in number of outlets was fourfold during March 2000-January 2001. However, Hari Bhartia, without whose approval the expansion could not go ahead, insisted that the increase was only 100% in 2000-01.

Domino's officials who supported Pavan Bhatia's expansion plan were of the view that only 5% of all stores were located in places where business was poor. This was a globally accepted trend.

They further argued that the profitable stores cross-subsidizing the unprofitable ones was also a common practice globally. Though Hari Bhartia was skeptical regarding the effectiveness of some of the marketing initiatives taken up by Pavan Bhatia, many analysts argued that the campaigns got new individual and institutional customers to the company.

Gautam Advani, former Chief of Marketing, Domino's explained, "...it was the advertising blitzkrieg that helped the company move to the first place from the sixth in both Mumbai and Bangalore..." Analysts were divided in their opinion about Hari Bhartia's role in all these developments. While some felt that Hari Bhartia was kept in the dark, others felt that he was a silent spectator. Still others felt that Hari Bhartia actually agreed with Pavan Bhatia's strategy, only to make him a scapegoat when things went wrong.

Questions

(1) Comment on the strategy adopted by Pavan Bhatia in the introductory phase of Domino's.

(2) What is your opinion on the expansion strategy of Pizza Hut in relation to Domino's growth?

(3) What do you think went wrong in Domino's strategy?

(4) What would you have done differently if you were Pavan Bhatia?

Q2 (a) Give the main steps in the Strategic process and explain each one giving examples. **10**

(b) What is the strategy you would adopt if your business is in a mature market. Explain giving reasons

Q3 (a) What do you understand by Porter's Five forces analysis. Draw the diagram and explain. **10**

(b) As CEO of an SME business that was doing well but whose profit margins have reduced considerably due to recession, what would you do to get your business back on track?

Q4 (a) Enumerate the major corporate strategies giving examples. **10**

(b) Do you feel that your Head HR should form part of the CEO's Core team to decide on an Organization's Strategic choices. Justify giving reasons for your argument.

Q5 What are Porter's generic (business level) strategies? Give examples in each and explain.

(b) How is Strategy in web-based business different from conventional strategy. Discuss with examples.

Q6 Write short notes on (any four) **20**

(a) SWOT analysis
(b) Generic strategies
(c) BCG Matrix.
(d) Value chain analysis
(e) core competency
(f) diversification strategy.
(g) Mc Kinsey's 7 S method for strategy evaluation

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