

A Tale Of 2 Pizza Turnarounds - Pizza Hut Vs. Domino's

Denise Lee
Yohn

Nov. 25, 2014 6:06 AM
ET

| | About: [YUM! Brands, Inc. \(YUM\)](#), Includes: [DPZ](#)

Disclosure: The author has no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours. **(More...)**

Summary

- Pizza Hut recently introduced a new "The Flavor of Now" menu.
- The new campaign is confusing and disconnected.
- It is unlikely to produce a sales turnaround on par with Domino's Pizza Turnaround.

On the surface, a recent revamp by Pizza Hut, owned by Yum! Brands (NYSE: [YUM](#)), may seem like the Pizza Turnaround that Domino's Pizza (NYSE: [DPZ](#)) undertook in 2010. But Pizza Hut's campaign is unlikely to become a success story like Domino's because it lacks the clarity, focus, and alignment that made that effort so effective.

Domino's "[Pizza Turnaround](#)" was clear, focused, and integrated. The campaign centered on the recipe of its core pizza. The company changed everything in it -- new sauce, new crust, new cheese -- and it ran documentary-style commercials that apologized for its old pizzas and introduced its new one recipe. It protected its core competence in fast delivery service by revamping the company's online tracking system to minimize delivery time. The strategy worked because it built new competitive advantages (taste and quality) while leveraging existing ones (speed and convenience). It was a straightforward, cohesive effort.

The Pizza Hut change is confusing. Ads call it "The Flavor of Now menu," which makes it sound like the company has added a new category or product line. But on the restaurant menu, the new offerings are not separated or distinguished from ones that were previously available. And in fact, the campaign includes new crusts, toppings, sauces, and calorie options. So the change isn't really a "menu" and it makes customers have to work to determine which offerings are "new."

(click to enlarge)

To add to the confusion, the advertising campaign features elderly Italians in an Old World setting dissing Pizza Hut's new products. The intent may have been to suggest that the new, hip pizzas are too cool for old people, but the approach may actually convey that pizza aficionados don't like them. People may be confused by criticisms of Pizza Hut coming from Italian grandmothers in Italy who ostensibly know how to make delicious pizza.

The sheer quantity of new ingredients is problematic for several reasons. For customers, the number of new options is likely to cause choice overload. Pizza Hut is going from one crust choice to 10, including salted pretzel and honey sriracha, and from one sauce choice to six, including garlic Parmesan and Buffalo. It is adding the option of five "premium" toppings, including sliced banana peppers and Peruvian cherry peppers, and five "sauce drizzles" like Buffalo and balsamic. And it now features 22 special recipe pizzas (up from 6), including Pretzel Piggy and Giddy-Up Barbecue Chicken.

With so many options, ordering is likely to be a frustrating, slow process for customers and employees alike. And speaking of employees, it's unlikely they can execute so many changes at once and maintain order accuracy and speed. The new ingredients have no doubt increased food costs, and it may be difficult for the company to source some of the more specialized ingredients at consistent quality over time.

Pricing is yet another point of disconnect. The new ingredients seem to appeal to foodies and discriminating palates, but the promotional offer of two pizzas for \$6.99 hardly conveys quality and specialty. Pizza Hut is using such deep discounting to offer lower prices than its closest competitor, but in doing so, it's sending mixed messages to customers who choose to pay seven dollars or more for a Chipotle (NYSE: [CMG](#)) burrito or a cheeseburger from Smashburger because they perceive those brands to offer better food options.

Above all, the new effort is unlikely to succeed because it fails to address Pizza Hut's biggest consideration - its 6,300 domestic stores. The campaign is intended to appeal to millennial customers - a market segment that is more likely to carry out or order delivery service - so it's unlikely to drive traffic into Pizza Hut's restaurants. Moreover, the company has excluded its quick-trip Express locations from the menu changes. Despite the attractiveness of the millennial market, it's a wonder why Pizza Hut would have selected a strategy that doesn't at least in some way address the company's real estate and store maintenance costs.

Pizza Hut is hoping to turn around eight consecutive quarters of comparable sales declines and reclaim the market share it has lost to Domino's. It's unlikely such a confusing, disconnected approach will do so.

Does this stock really matter to you?

Consider PRO Alerts on YUM

[LEARN MORE](#)

LATEST ARTICLES ON YOUR INTERESTS:

