DOMINO'S PIZZA PORTUGAL
A CASE STUDY ON THE PRICE DISCLOSURE STRATEGY OF A LATE ENTRANT

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ABSTRACT

Title:
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Abstract:

March 2016: Domino's was the world's second largest Pizza company. As part of its global expansion strategy, this American brand entered Portugal in June 2015, with the long-term goal of opening up more than 100 stores in this European country.

Domino's' disclosure strategy concerning the delivery fee was decisive in its market entry and is central to this case study. The company's standard strategy in the United States of America was the following: Domino's disclosed a fixed delivery fee and promised to deliver within 30 minutes; if the promise was not kept, the customer did not have to pay this fee. Francis Hill (COO and CBDO at Domino's' master franchisee in Portugal) was responsible for deciding whether to adopt the brand's standard strategy or to adapt it to the highly fragmented, mature and nearly saturated Portuguese market, where its direct competition did not disclose a delivery fee, and competition was based on a practically non-differentiable product: Pizza.

In this case, students are presented with industry's, Domino's' and consumers' facts and figures, which are there to be used in the development of quantitative and qualitative analysis of the situation. Together with the teaching note, this case should challenge the reader to apply relevant marketing theories and case data to solve Domino's' dilemma.

Keywords*: marketing, price disclosure, market entry, late entrant, adaptation, standardization, glocalization, global marketing strategies, Domino's, Pizza, Portugal*

RESUMO

Título:
Domino's Pizza Portugal – Um caso de estudo sobre a estratégia de divulgação de preços de uma empresa que entra tardiamente no mercado

Autor: Simão Gomes Silva Ferros Praxedes

Resumo:

Março 2016: a Domino's era a segunda maior empresa de Pizza do mundo. Esta marca americana entrou em Junho 2015 em Portugal como parte da sua estratégia de expansão global, tendo como objetivo a longo prazo abrir mais de 100 lojas neste país europeu.

A estratégia de divulgação da taxa de entrega da Domino's foi decisiva na sua entrada de mercado e é central neste caso de estudo. A estratégia standard nos Estados Unidos da América era a seguinte: a Domino's divulgava uma taxa de entrega fixa e prometia entregar em 30 minutos; se não cumprisse a promessa, o(a) cliente não teria de pagar esta taxa. Francis Hill (COO e CBDO no franqueado mestre da Domino's em Portugal) foi responsável por decidir se adotaria a estratégia standard da marca ou se a adaptaria ao altamente fragmentado, maduro e quase saturado mercado português, onde a sua concorrência direta não divulgava esta taxa, e a competição era baseada num produto praticamente indiferenciável: Pizza.

Factos e números da indústria, da Domino's e do consumidor são apresentados neste caso a estudantes, para serem usados na análise quantitativa e qualitativa da situação. Juntamente com os apontamentos de ensino, este caso desafia o(a) leitor(a) a aplicar teorias de marketing relevantes e dados do caso para resolver o dilema da Domino's.

***Palavras-chave**: marketing, divulgação de preço, entrada de mercado (tardia), adaptação, estandardização, glocalização, estratégias de marketing global, Domino's, Pizza, Portugal*

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My special thanks go to Francis Hill*, COO and CBDO at Domino's' master franchisee in Portugal. Without his openness and willingness to support the future generation of managers, I would not have been able to get such high-quality and hard-to-find insights, which immensely contributed to the development and direction of the case study.

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Last but not least, I would like to thank all the people that in their unique way helped me conclude this thesis, either by voluntarily participating in my survey or sharing feedback and experience to improve my work.

* *"Francis Hill" is a made-up name for the manager in question. He preferred to stay anonymous throughout the thesis.*

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INTRODUCTION

Pedagogical Purpose

"Both the opportunities and the threats of increasing globalization have created an urgency for companies to succeed in international markets (Burgess & Steenkamp, 2006; Chao, Samiee, Sai, & Yip, 2003)."

– Pauwels, Erguncu, & Yildirim (2013)

The main goal of this dissertation is to provide students a real-business-like example of what a marketing manager has to take into consideration when deciding whether to apply the company's standard price disclosure strategy or to adapt it to the new market it is entering. The thesis begins with the case study, followed by the teaching note that not only includes the literature review, but also serves as a supporting guideline for instructors. Methodology and a final discussion will also be presented.

What makes this case special is that it exemplifies this price-related strategy executed by a global player (Domino's) when entering a market (Portugal) that presented many red flags: it was mature, nearly saturated, highly fragmented, had already two established players and competition was based on a practically non-differentiable product.

This dissertation discusses an industry specific aspect that can have a major influence on the consumer's final decision, namely whether a company in the quick-serve Pizza (QSP) segment should disclose a delivery fee, and if so, how it can be used as a differentiating tool.

This case demonstrates the pre-conditions of success of a late entrant in a market with the characteristics mentioned above. Moreover, this dissertation provides support for price-related strategies as well as for decisions concerning adaptation versus standardization in global marketing strategies.

Research Questions (RQ)

For the case study's author and readers to understand the pre-conditions of success of Domino's in Portugal and whether the Pizza company should standardize or adapt its price disclosure strategy (i.e., to disclose or not a delivery fee) when entering the Portuguese market, this dissertation will focus on the following research questions:

RQ 1:
What does the (Portuguese) QSP segment look like?

RQ 2:

What is Domino’s’ standard (i.e. in the US) price disclosure strategy regarding delivery fees?

RQ 3:

What does Domino’s analyze in a new market when defining prices regarding delivery fees?

RQ 3.1:

In Portugal, what is consumers’ perception regarding delivery fees in the QSP segment?

RQ 3.2:

How is Domino’s’ direct competition in the Portuguese QSP segment perceived by consumers and how does the competition see delivery fees?

RQ 4:

Considering the information gathered from the previous research questions, which pricing strategy regarding delivery fees has Domino’s adopted in Portugal: the standard (American) one (charging one), or did the company adapt locally (not charging)? Why?

Simão G. S. F. Praxedes

CASE STUDY:
Domino's Pizza's Price Disclosure Strategy as a Late Entrant [i]

"To be the #1 Pizza company in the world and in every neighborhood!"
– Domino's Pizza Portugal's Facebook Page Mission Description

3 o'clock in the afternoon. Spring 2016. Lisbon, Portugal's capital and largest city. Francis Hill was standing right outside Domino's' first store in the country. After the lunch rush hour, the well-lit, now practically empty store with a traditional Lisbon tile floor design was now being cleaned by its staff for the dinner phase of the day, while occasional telephone and online orders were prepared and delivered. The almost non-existent constant background noise of several fridges with drinks and desserts, of air conditioning and kitchen exhaust fans made way for the smell of Pizza. Despite the 15 degrees Celsius, light breeze and slightly cloudy sky, several sets of tables and chairs were on the sidewalk for brave customers that preferred to eat outside rather than in the store.

Francis Hill was, at the time of this case, Chief Operations Officer (COO) and Chief Business Developer Office (CBDO) at Domino's' master franchisee in Portugal.
The startup of the American Pizza brand in Portugal was his responsibility.

While looking at the parked blue-themed Domino's delivery scooters, the frenzy of a loudly passing ambulance takes business casually dressed Hill back to the opening day of this same store in the summer of 2015. It was full of curious customers and fun, happy staff giving out slices of Domino's' Pizza as samples to everyone that passed, from children to elders. Right across the intersection its competitor Pizza Hut had placed an advertisement on the bus stop, offering two Pizzas for the price of one. This competitor's store was located at a five minute walking distance, and Hill was almost sure that same ad was not there the day before. He could also recall seeing customers with take-away McDonald's meals coming from the restaurant area of the local shopping mall that was located right on the other side of the street.

Hill still remembers the time this location was an official BMW second hand car sales spot, which after months of planning, preparing and execution was turned into Domino's' first store

[i] Simão Gomes Silva Ferros Praxedes wrote this case under the supervision of Professor Paulo Gonçalves Marcos as a dissertation submitted in partial fulfilment of requirements for the degree of International MSc in Management, at Católica-Lisbon, School of Business & Economics, Universidade Católica Portuguesa, dating July 2016. It is intended to be used as basis for class discussion and not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. This case is based on real experiences. However, proprietary data has been disguised to preserve confidentiality keeping all the essential facts and relationships intact.
Note: Pizza will be capitalized along the case on purpose.

in Portugal. The brand's market entry in this country seemed to be going well, as until March 2016, Domino's had opened 7 stores in Lisbon, and Hill already knew where the first one was opening in Porto, Portugal's second largest city.

Nevertheless, there was one aspect of the strategy bugging him all along, an annoyance induced by Domino's' red and blue "delivery in 30 minutes" stickers on the first store's windows.

The problem was the following. Domino's' strategy in the United States (US), its home market, and the characteristics of that market enabled the company to disclose a delivery fee and promise to deliver customers' orders within 30 minutes. If the promise was not kept, delivery would be free. Hill and his team had to decide whether to apply this standard "30 minutes or delivery is free" concept or to come up with a new price disclosure strategy, adapted to the Portuguese market.

Hill still remembers the many headaches this crucial strategic component gave him, as now he was relieved that a final decision had finally been taken.

Key Characteristics of the Quick-Serve Pizza (QSP) Segment [ii]

Key Success Factors

The QSP segment was part of the Quick Service Restaurant (QSR) industry. Businesses in this highly competitive segment, including Domino's, charged relatively similar prices. Therefore, differentiation was mainly achieved on taste, quality and customer experience.

Store and delivery service quality as well as customer relationship management played a crucial role in 2016 – a time in which social media platforms were already a standard in society – having a tremendous influence on customer experience and word-of-mouth. Therefore, brand consistency and cohesiveness were central to brand reputation, as QSP chain companies needed to ensure that all stores performed at the same level[1]. Store staffing and coaching played a central role regarding this latest success factor, as in services, frontline employees and their behavior were quite literally the face of the brand, and too few employees in a store could for example increase waiting times, damaging customer experience[2]. Key in this digital era was thus transparency, especially between company and consumers, in order to diminish the impact of a potential negative customer experience.

[ii] Some information presented along this chapter is based on the case study developed by Bell, Andr, She, and Lman (2012), Harvard Business School.

With the increase of digital and online ordering[iii], which was growing three times faster than dine-in ordering[iv], QSP players with delivery services needed to innovate their technological ordering platforms, through mobile apps, user-friendly websites and more digital solutions[3] to stay competitive. Menu innovation was equally important to keep the consumers' interest and loyalty[4] by developing products that were difficult to replicate at home.

Moreover, a company's franchise model and store location strategy contributed as the biggest promotion tool of a QSP company since it could have a strong influence on the growth (or decline) of market share[5]. Finally, supply chain management and strategic procurement were of CEO-importance level, since the cost with agricultural commodities could cover the largest share of the revenues. Cheese alone could cover up to 40% of them.

Types of Service Offering

There were two types of services QSP players could offer: delivery[v] and at the store. Take-away[vi] and carry-out services[vii] as well as dine-in[viii] were the three available alternatives at the store. Competitors could choose to operate in all of them at the same time or only in one.

Alternatives

Frozen food and dine-in (independent) one-shop restaurants were the most threatening alternatives to players in this segment. Under financial stress, families did prefer take-away/home delivery to eating at a dine-in restaurant[6]. However, under the same circumstances, frozen food, despite being perceived as having lower quality then freshly made food[7], was even more preferred to take-away/home delivery.

Company Background – Domino's

"*A supply chain and brand management business focused on supporting the franchised stores*"[8] – that was Domino's in 2016, a company founded back in 1960 when brothers Tom and James Monaghan borrowed $500 to buy DomiNick's Pizza store in Michigan (USA), focusing the business on Pizza delivery and customer take-away. In March 2016, Domino's

[iii] Author's definition of "digital and online ordering": ordering through digital platforms, such as the Internet via Computer, and as digital applications (apps) via digital devices, e.g. smartphones or tablets.
[iv] Author's definition of "dine-in ordering": in-restaurant ordering; ordering while being physically present at the store or restaurant.
[v] Author's definition of "delivery": order online/per telephone/at the store and have one's order delivered to the desired location.
[vi] Author's definition of "take-away": order online/per telephone/at the store and consume it not at the store.
[vii] Author's definition of "carry-out": order online/per telephone/at the store and consume it at the store without table service, i.e. no clerks.
[viii] Author's definition of "dine-in": order at the store and consume it at the store with table service.

was the second largest Pizza company in the world with more than 12,100 stores worldwide, being present in over 80 countries and selling 1.5 million Pizzas worldwide daily[9, 10].

Domino's' success in the US grew exponentially in the 1980's due to the innovative concept of promising to deliver within 30 minutes or else delivery would be free. This type of price disclosure was doable in the US, because consumers in that market were used to paying a delivery fee[ix].

A major component making this strategy successful was Domino's' US franchise model, which was different from the ones of other QSP players on two aspects:

- The amount of capital investment needed to start running a new Domino's franchise location (around 200,000€) was relatively low in this segment, made possible by avoiding extensive sit-down dine-in areas;
- Domino's franchisees were given a specified delivery radius, ensuring Pizza was deliverable to customers in 10 minutes or less. Competitors used to assign regions (e.g. a city) to franchisees instead.

Additional vital aspects of Domino's' standard US strategy were ensuring the efficiency of its delivery service, serving high-quality Pizzas as well as the applications of new technologies to local neighborhoods[11, 12]. With that purpose in mind, the company "*developed a cost-effective business model with low capital requirements, a focused [and historically simple] menu of affordable pizza and other complementary items, and an interior specially designed to support delivery and carry-out [as well as take-away]. […] said Stan 'The Pizza Guy' Gage, vice president for training and development [at Domino's]* "[13].

Two criteria consumers used to evaluate their satisfaction with a meal was the taste and their customer experience. Domino's recognized therefore the importance of customer relationship management in such a globalized and digitally connected world, where one isolated negative (customer) experience could turn into a global public relations nightmare in a matter of minutes. Consequently, Domino's adopted a company-wide transparency policy: transparency not only within the organization but also towards the customer. Domino's actively engaged in and embraced social media, as changing consumer technologies started to play a major role in brand image. Thus the company opened accounts on the most popular social media platforms – Twitter, Facebook and YouTube – and focused on using these as tools of differentiation and of increasing the customer experience[x].

[ix] Information based on the first interview with Francis Hill

[x] Some information presented along this chapter is based on the case study developed by Bell, Andr, She, and Lman (2012), Harvard Business School.

"If we can bake a Pizza and get it to the customer in 30 minutes, we should be able to respond to a customer concern in the same amount of time."[14]

– Domino's' Vice-President for training and development

Portugal as a Market

Portugal was the most western European country, located next to Spain, and had a total of almost 10.4 million inhabitants in 2016[15], a number that was projected to remain relatively stable until 2020[16]. In 2015, a Portuguese family had on average 2.5 individuals[17] and the majority of the inhabitants lived in the country's two biggest and most densely populated cities: around 550,000 in Lisbon (2011)[18] and close to 240,000 in Porto (2011)[19]. Lisbon's metropolitan area was home to 2.8 million people in 2011[20], while around 1.8 million inhabitants lived in Porto's[21]. These numbers reflect the urbanization level – "*the share of urban population in the total population of a country*"[22] – of the country Domino's was about to enter: 62.91% in 2014, having increased from 56.91% in 2004[23].

The Portuguese population was an aging one. From having a median age[xi] of 27.9 years in 1960 and of 37.9 years in 2000, this statistic was estimated to increase to 44 years in 2015 and 46.2 in 2020[24]. Taking a more detailed look at this country's age structure, in 2014 around 14% of population was 14 years old or younger, 66% was 15 to 64 years old and 20% was 65 years old or older[25]. The latter statistic had increased from 17% in 2004, while the other two age groups reduced their 'share' over the same time period[26].

Along with an aging population, unemployment rates presented an additional socio-economic challenge. Portugal's unemployment rate had reached its peak of recent years in 2013 with approximately 16.2%, while it was estimated to decrease to 9.5% until 2020[27]. In February 2016, Portugal's unemployment rate was of 12.3%, clearly over the European Union (EU) average of 8.9%[28]. Additionally, 30% of Portugal's active population younger than 25 years was unemployed, well above EU's average of 19.4%[29].

In 2014, with 51%, Portugal only ranked ahead of Greece, Bulgaria and Romania (out of 30 European countries) when it came to the share of individuals using the internet daily[30]. Comparatively, the average of the Euro area was of 66%, while Iceland lead all 30 countries with 94%[31]. Nevertheless, this share in Portugal had increased from 22% in 2006 to those 51% in 2014[32]. Over the same time period, the share of Portuguese individuals who had never used the internet decreased from 60% to 30%[33]. According to data from the same year (2014), a mere

[xi] Definition: "*The median age is the age that divides a population into two numerically equal groups; that is, half the people are younger than this age and half are older. It is a single index that summarizes the age distribution of a population.*" [24]

65% of households in Portugal had internet access[34]. This was the third-lowest percentage, out of 30 European countries, ahead of Romania and Bulgaria only[35]. The average share in the Euro area was of 81% of households, with Luxembourg's 96% topping the list[36]. Furthermore, the share of households in Portugal that used desktop or portable computers to access the internet increased from 29% in 2006 to 63% in 2014[37]. Despite this increase, Portugal was still in the bottom three, while the Euro area average was 78%[38].

The QSP Segment in Portugal

Market Conditions

According to Francis Hill, the QSP segment in Portugal was mature and nearly saturated. Despite it also being highly fragmented[xii], Domino's would compete as a late entrant directly against two huge players with an already established presence. Furthermore, competition was based on a practically non-differentiable product: Pizza.

The economic crisis gave birth to a significant trend in the QSR industry from 2013 on out. Businesses that positioned themselves as stores or restaurants of the local neighborhood were successful, experiencing strong growth by using a franchise model. This trend was witnessed not only in the "local café-bakery" segment through "*A Padaria Portuguesa*"[39], but also in the hamburger business with "*Hamburgueria do Bairro*"[40], which translated from Portuguese literally means "The Hamburger Shop of the Neighborhood".

Consumer Behavior

Based on a consumer survey, where most eligible respondents were Portuguese (100% of all respondents) university students (76%) between the ages of 19 and 25 (85%), certain insights into their behavior and perceptions were worth being brought to light[xiii].

The majority of people ate Pizza once (47%) or twice (21%) a month, mainly for the love of Pizza (38.5%) as well as for its convenience, e.g. because of being lazy or busy (31.5%), and for social reasons, as for example at a friend's birthday dinner (23%). Moreover, going to a dine-in (Italian) restaurant (29%), using delivery services (27.5%) and eating frozen Pizza bought in the supermarket (25%) were the most preferred options to consume Pizza. Take-away (12%) and carry out services (4%) were less used methods. Furthermore, price stood out as a key deciding criterion when choosing where to eat Pizza, while promotional campaigns,

[xii] See Exhibits 8 and 9
[xiii] See Exhibits 10 to 15

store location, brand loyalty, menu variety and quality were relatively equally taken into consideration as well. When people did not eat at the store, they usually ordered it either via telephone (49%) or on-line via the company's website (36%).

Regarding consumers' openness to experience new Pizza, the majority said it was willing to try out new stores and restaurants (93%). Word-of-mouth played a central role in this behavior, as hearing good (40% of the 93%) or bad reviews (33.5% of the 7%) of current customers was key in deciding whether to try out a new Pizza store or restaurant. Personal curiosity (38%) of those that were open to experience new Pizza was more meaningful than the characteristics of existing Pizza businesses, e.g. them being more expensive (10%) or less convenient (5%) than the new possibility. However, among those not open to new Pizzas, the fact that the new offer was more expensive than existing options was listed as the second choice for not trying out new Pizza (22%), only behind "hearing bad reviews" (33.5%). This once again underlined the importance given to price in consumers' decision making process[xiv].

Competitive Landscape

Although this segment was highly fragmented, there were two players that stood out: Telepizza and Pizza Hut. Hill saw the first one as Domino's' most direct and closest competition.

Telepizza

Telepizza[41, 42] was a Spanish QSP company founded in 1987. In March 2016, with 1,000+ stores in 6 countries, it had its biggest presence in Spain (600+ stores) and Portugal (143 stores).

In February 1992, Telepizza opened its first store in Portugal, more specifically in Lisbon, in the exact same city area Domino's opened its first store in June 2015. The Spanish company operated under the franchising model since its market entry. In March 2016, 60% of all its stores in the country were franchised, the other 40% being owned by the company.

Telepizza's vision was to offer a service of excellence at any moment and any place, being part of customers' moment of relaxation and fun while offering a tasty, balanced and affordable product. This strategy enabled Telepizza to become market leader of home delivery in the Portuguese QSR market of ready cooked meals. Despite having a diverse product portfolio – including pastas, hamburgers, wraps and hot dogs – Pizza was the main focus and specialty of Telepizza. Apart from home delivery, it also offered take-away and carry-out

[xiv] The data presented in this subchapter was collected from a survey conducted by the author in an academic environment.

services, while delivery was always free and no promises were made: only that delivery times were estimated to end up between 20 and 30 minutes.

Recognizing the growing importance of technology in the QSP segment, Telepizza opened its online store in 2010, and created its own apps and Facebook page to ensure convenience and satisfaction to its customers.

Pizza Hut

Founded in 1958 in Wichita (Kansas, USA) by two brothers on a $600 loan from their mother, Pizza Hut[43, 44, 45] grew to become the world's largest Pizza company, with 15,000+ restaurants spread over 90+ countries. Based on the concept of wanting to offer Moments of Excitement, Pizza Hut focused its business on offering the traditional dine-in seating areas with restaurant-like customer service and quality[46]. By following this strategy, Pizza Hut wanted to differentiate itself from the QSR (fast-food) players. Take-away and delivery services were also offered. The latter one was introduced in 1988 and the business' fastest growing part in 2016.

Innovation was the back-bone of Pizza Hut, having been the pioneer amongst Pizza chains with online delivery ordering in 1994 and with creating a Facebook page in 2007, along with several novelties in its product portfolio, which, apart from Pizza, also included pasta and chicken wings.

At the time of this case study, Pizza Hut operated under a franchising model that had been adopted back in 1959. In 1968 the company started executing its internationalization strategy. Up until March 2016, it had 93 restaurants in Portugal, a market in which it did not disclose a delivery fee, estimating delivery to take between 20 and 30 minutes.

Other Competition

The main direct competitors of Domino's, Pizza Hut and Telepizza were not only other Pizza chains, but also local one-shop Italian restaurants that served Pizza. Regional, localized competition was intense, as 55% of the previously mentioned consumer survey's respondents named around 40 other Pizza brands and restaurants apart from the big three.

Among these other brands were supermarkets' private labels. In fact, according to the younger Portuguese consumers, frozen Pizza was more often considered as an option to consume Pizza (25% of respondents) than take-away (12%) and carry-out services (4%) together[xv].

[xv] The data presented in this subchapter was collected from a survey conducted by the author in an academic environment.

Alternatives to Pizza

Other Italian dishes (33.5% of respondents), such as pasta, and fast-food (33.5%) were considered the main direct alternatives to Pizza, while Sushi (14%) and full-service restaurants that served all kinds of food (12.5%) also made the list. Chinese food, home- and pre-cooked meals (from the supermarket) were mentioned as substitutes to Pizza as well[xvi].

Domino's in Portugal

Outside of the US, Domino's used the "master franchiser" model: "*A master franchisee was granted exclusive ownership rights over the stores and the supply chain system for a country, region or number of countries. Additionally, the master franchisee was allowed to sub-franchise the brand within their market.*"[47]

As part of its global expansion strategy, Domino's opened its first store in Portugal on June 8th 2015[48] using this exact same model. A Portuguese company with Spanish investment was the master franchisee[xvii] responsible for the startup and development of the Pizza brand in the Portuguese market. Francis Hill was the man at the helm of the whole operation[49].

Despite market conditions, Domino's wanted to have more than 100 stores as market leader in Portugal in the long-term, while starting the expansion focused on the country's two biggest cities to first gain brand awareness, according to Domino's' Vice-President of Europe, Middle East and Africa (EMEA)[50]. Telepizza and Pizza Hut were considered as the brand's direct competitors. Fast-food chains and local one-shop restaurants were however not ignored, as Hill made sure to keep the "Golden Mile" rule in mind: "If a store or restaurant is more than five minutes walking distance away, the majority of consumers will not bother going there."[51]

Taking into consideration the post-economic-crisis trend of successful neighborhood restaurants in Portugal, Domino's positioned itself as a fun proximity brand, with quality being the desired factor of differentiation. The brand should be perceived as the neighborhood Pizza store that was present in moments of joy and sharing. Cosmopolitan consumers between the ages of 16 and 55 were the target. Gender did not play a role. However, they should consume other brands (e.g. Telepizza, Pizza Hut) and often enjoy moments of sharing and joy, e.g. watching a football game with friends at home.

[xvi] The data presented in this subchapter was collected from a survey conducted by the author in an academic environment.

[xvii] When mentioned in the context of the Portuguese market, "Domino's" and "Domino's' master franchisee in Portugal" are supposed to be understood as synonyms.

This marketing strategy was designed to achieve Domino's' three main goals upon market entry: steadily growing the brand, achieving operational results and keeping on track with the store expansion plan. The master franchisee was aware that perceptions took a long time to be formed or changed, knowing therefore that brand growth through increases in its awareness and satisfaction was to be seen as a steady medium- to long-term goal. For that to happen, Domino's' needed to ensure brand and performance consistency and cohesiveness by achieving the company's operational goals, while spreading the brand across the country opening up more and more stores[xviii].

In order to successfully bring something new to the Portuguese market, whose customers Domino's believed to be bored with the same offerings from Telepizza and Pizza Hut for the past 23 years[52], the master franchisee decided to glocalize[xix].

Domino's planned to offer the same standard services in Portugal as it did in the US: delivery and at the store, including take-away and carry-out. Additionally, its Portuguese website was projected to be the first one outside the US to fully replicate Domino's US' website. Its menus were usually culturally adapted to local markets – the dough recipe was however the same everywhere in the world. Store design was also expected to be adapted to the Portuguese market[xx].

Conclusion

Back to April 2015. Hill had just returned to the office from checking the progress made in the construction of the first store. After grabbing his second breakfast, Hill went to the conference room, where the team was already expecting him. This was a crucial meeting and centered on one sole question: which price disclosure strategy regarding the delivery fee to choose for Domino's' entry in Portugal?

This was a topic of utmost importance, because Hill knew that the brand's market entry success would be highly dependent on the experience Domino's' first customers would share with their network. Moreover, it was predicted that 75% of revenues would be made solely during three hours of each day and that at least 50% of all customer orders – including those

[xviii] Information taken from the second interview with Francis Hill
[xix] "Glocalize" comes from "glocalization", a global marketing strategy, where a company is able and willing to think globally (standardize at a strategic level) and act locally (adapt at a tactical level, i.e. its marketing mix) to meet the different needs of various nations, cultures and markets (Vrontis, Thrassou, & Lamprianou, 2009). As Oliveira (2013) indicated, a company being glocal means it having the capacity to be local in the sense of being an insider – i.e. being up-to-date concerning the local market as a domestic company – while maintaining the benefits of worldwide operations (Vaccari, 2011).
[xx] Information in this chapter is based on the first interview with Francis Hill

taken in the stores – would come from Domino's' website, the rest being made by telephone and at the stores. Furthermore, the team was aware that teenagers and young adults were willing to pay on average around 2.50€ for Pizza delivery. However, the majority of these consumers would change to a competing brand if their preferred one started charging (i.e. disclosing) a delivery fee, indicating that brand loyalty tended to be relatively low in this market.

Hill knew that consumer preferences tended to follow the sequential order of brand entry in a market, as pioneers would be used as benchmarks. Being a late entrant, Hill wanted Domino's to overcome this market share disadvantage by differentiating itself substantially in consumers' minds. Despite leading to reduced margins, following a low-price differentiation strategy showed potential, as it could attract new customers that were not willing to pay the prices of existing Pizza companies. Given the maturity of the market, Hill knew it was crucial to provide superior performance and excellent customer service, along with an appealing price point.

With this in mind, Hill and his team began discussing the alternatives that would best suit the following questions regarding the "30 minutes or delivery is free" concept.

On the one hand, should Domino's disclose a delivery fee? In case Domino's did that, how much would it charge? Would it be better to not disclose the delivery fee and simply dilute the cost of delivery in the price of the Pizzas?

On the other hand, what would the probabilities of successfully making and keeping the "delivery in 30 minutes" promise be? Was Domino's' staff going to be good and experienced enough to fulfill it consistently? How would Domino's compensate unhappy customers, in case delivery took more than 30 minutes: with free delivery in the next order, with discount coupons, free products or other methods? How could the company develop a wow! factor in their customer service?

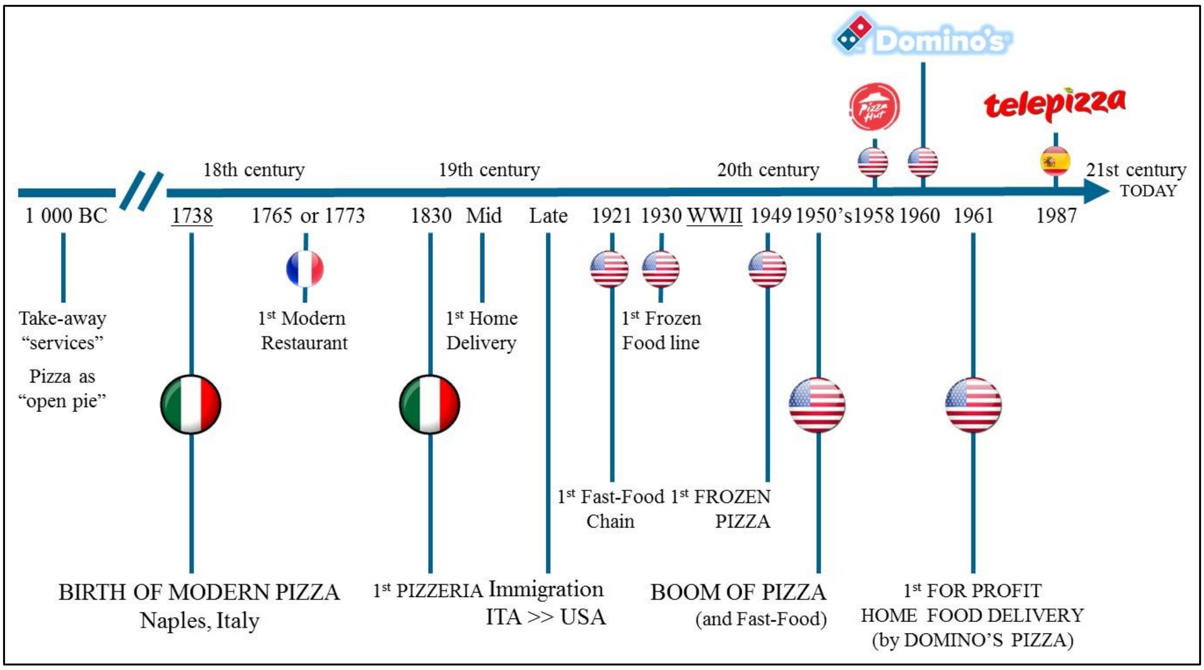
This was not an easy decision, since Domino's' price disclosure strategy needed to not only cover delivery costs, but also attract and retain customers. Moreover, Hill knew the latter ones, based on their references, could perceive a previously unknown fee as a price increase and skeptically see it as a way for companies to make additional profits.

In sum, could the "30 minutes or delivery is free" concept or an adapted version of it be successful in Portugal? The team needed to come up with an answer soon. Domino's' first Portuguese store was planned to open in two months[xxi].

[xxi] Information taken from the first and second interview with Francis Hill as well as from the survey conducted by the author is included in this chapter.

EXHIBITS

Exhibit 1: History of Pizza



Source: Made by author based on numerous different sources.

Exhibit 2: Location of Portugal[53]

Exhibit 3: Location of metropolitan areas of Lisbon and Porto[54]

Exhibit 4: Metropolitan area of Lisbon[55]

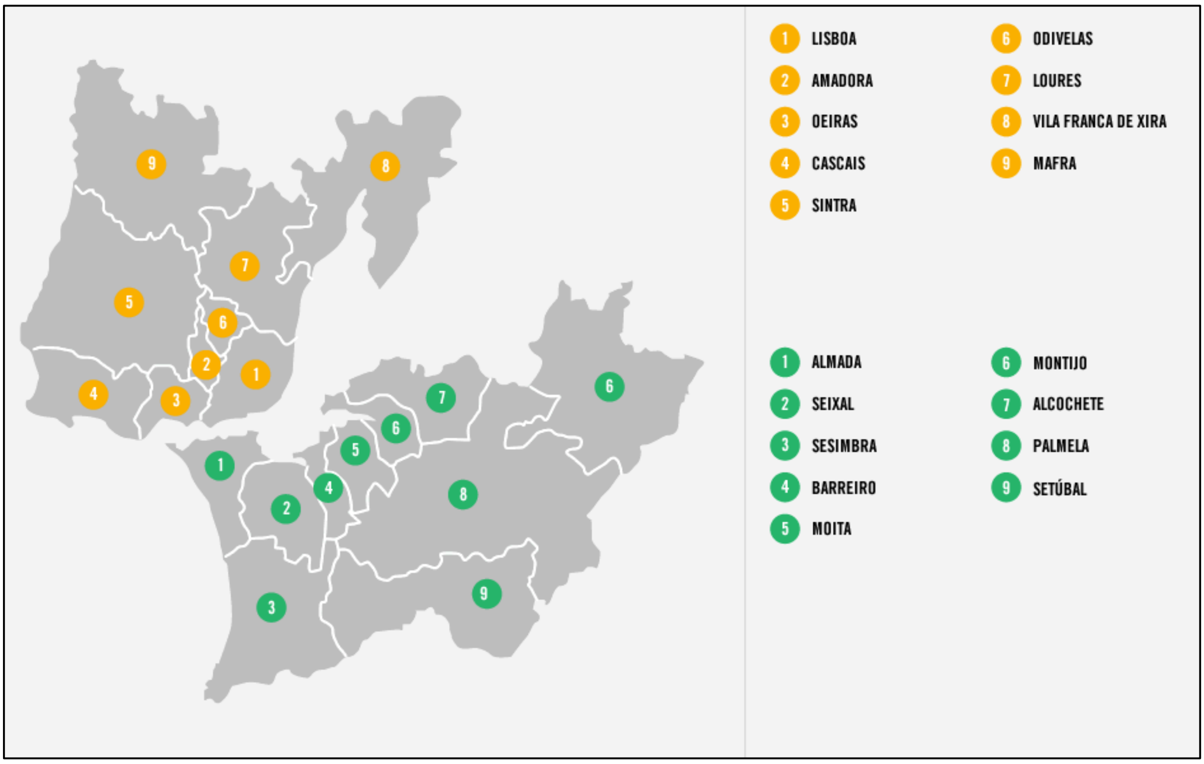


Exhibit 5: Metropolitan area of Porto[56]

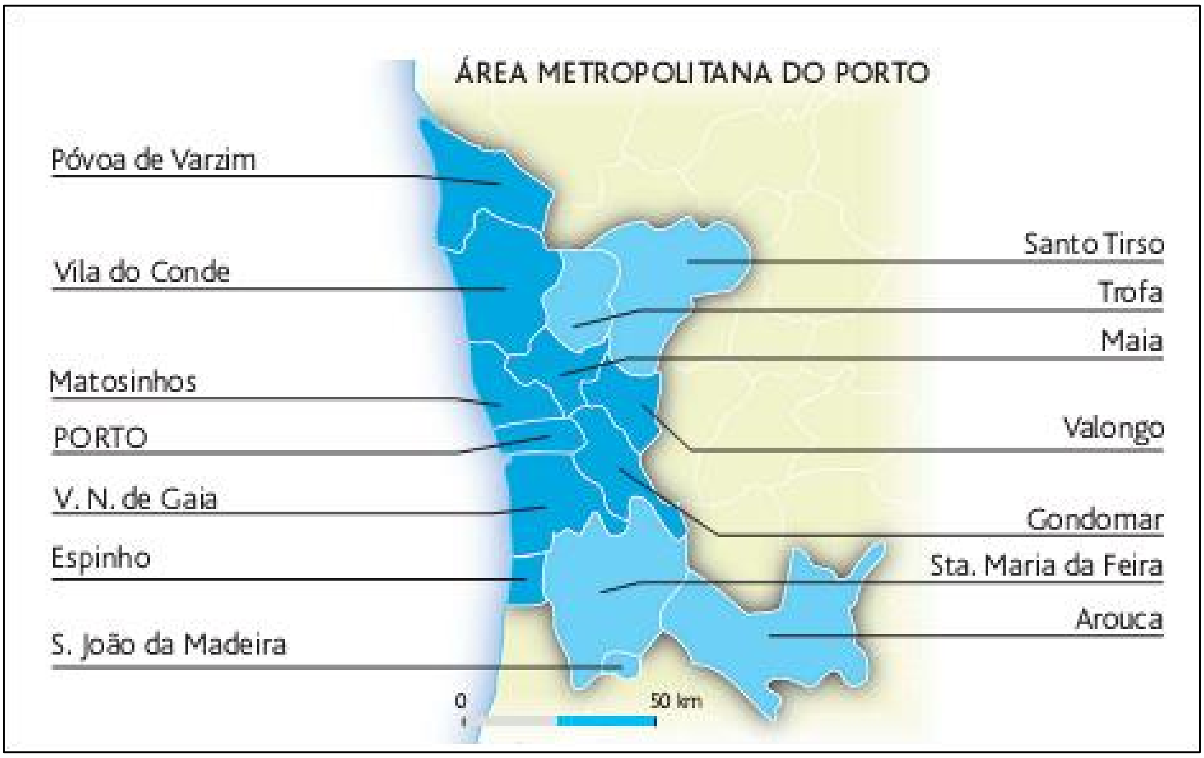


Exhibit 6: Where it all began – Domino's' birthplace (1960, USA)[57]

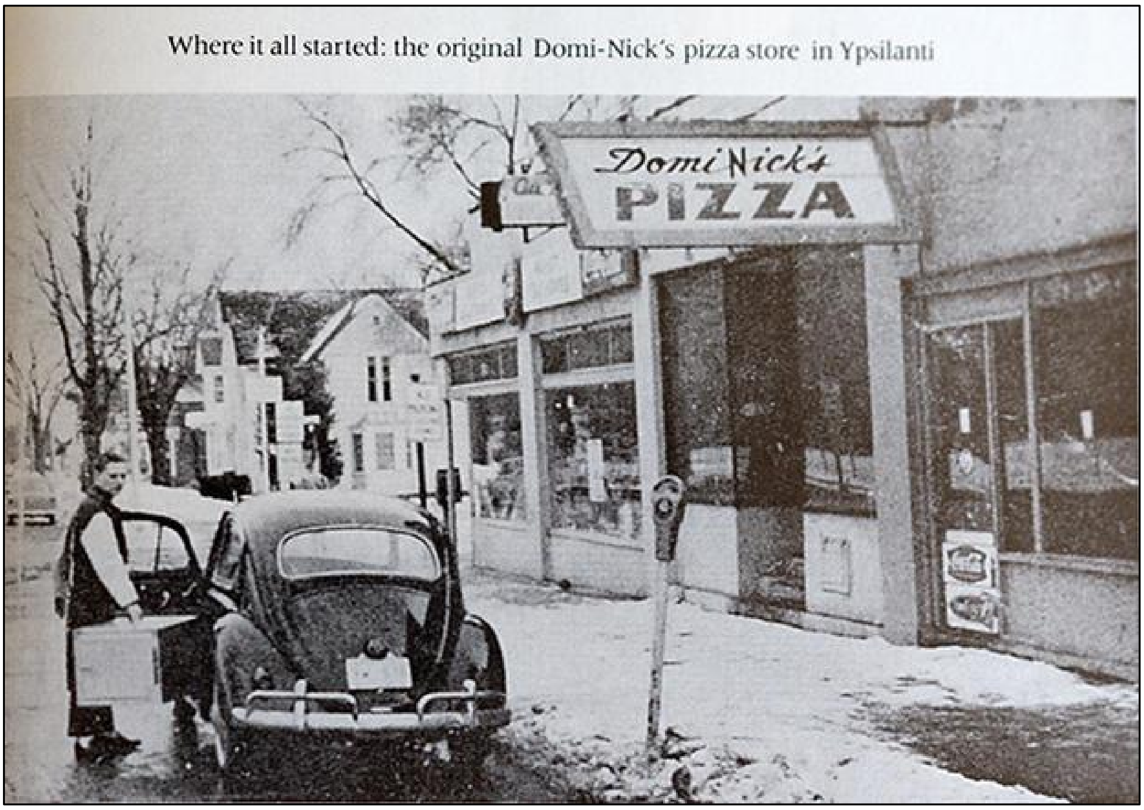


Exhibit 7: Example of Domino's' Pizza[58]

Exhibit 8: Approximate number of Pizza stores and restaurants in Portugal's two biggest cities

Metropolitan Area	Zomato	tripadvisor
Lisbon	441 [59]	444 [60]
Porto	96 [61]	148 [62]

April 2016

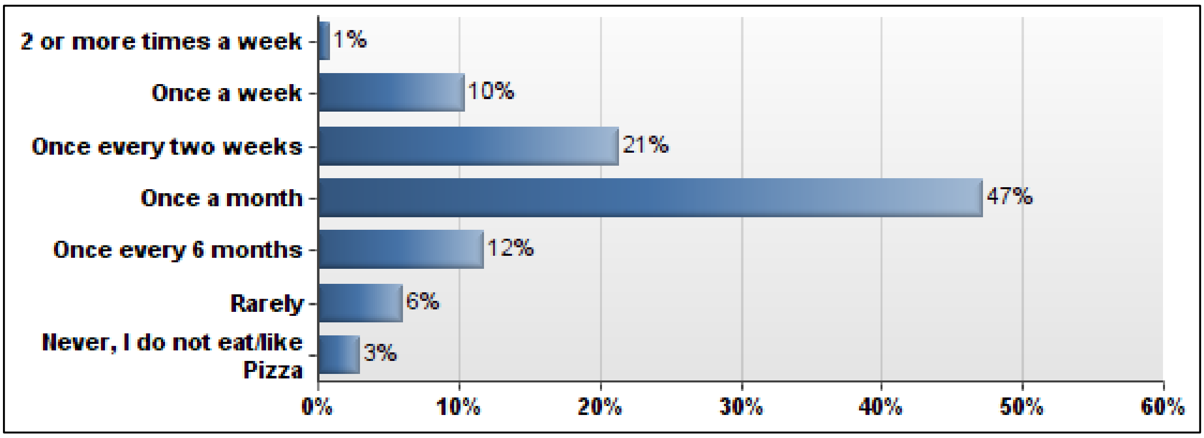
Exhibit 9: Approximate number of fast food restaurants in Portugal's two biggest cities[xxii]

Metropolitan Area	Zomato	tripadvisor
Lisbon	271 [63]	1 038 [64]
Porto	47 [65]	370 [66]

April 2016

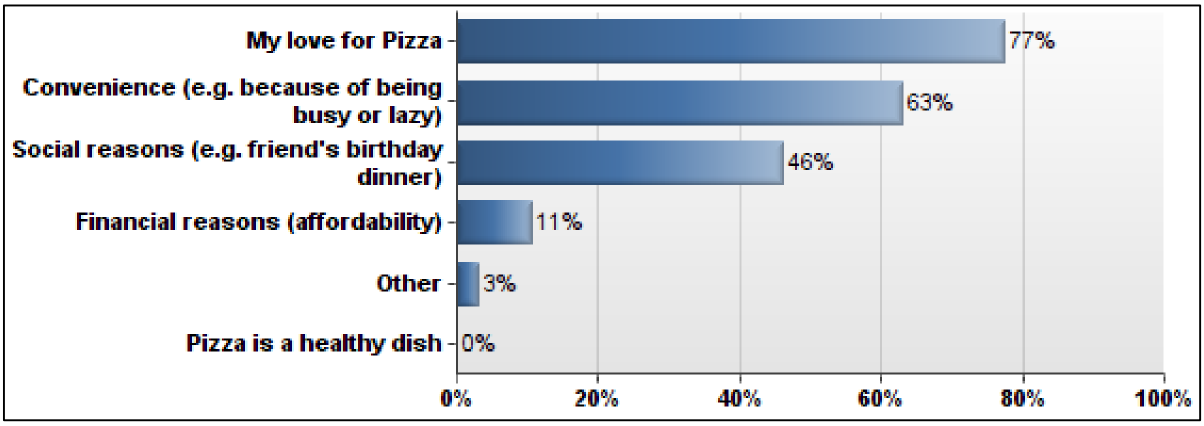
[xxii] The values presented in exhibit 9 do not include the values of exhibit 8, and vice-versa. *Zomato* and *tripadvisor*, two websites/apps with data bases of restaurants, made a clear distinction between the "Pizza" and the "fast-food" category.

Exhibit 10: "How frequently do you eat Pizza on average?"



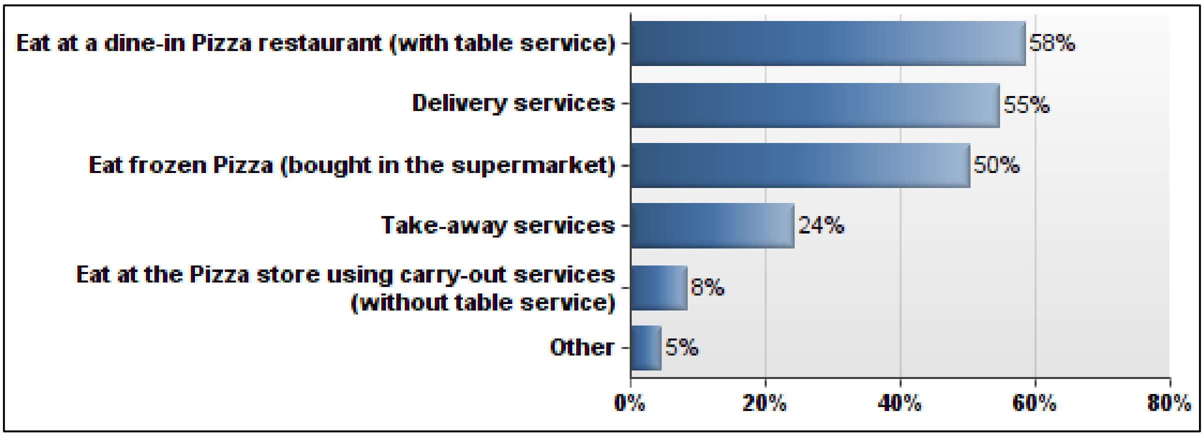
Source: results from survey conducted by the author in April 2016
In % of all respondents

Exhibit 11: "Choose your Top 2 reasons for eating Pizza."



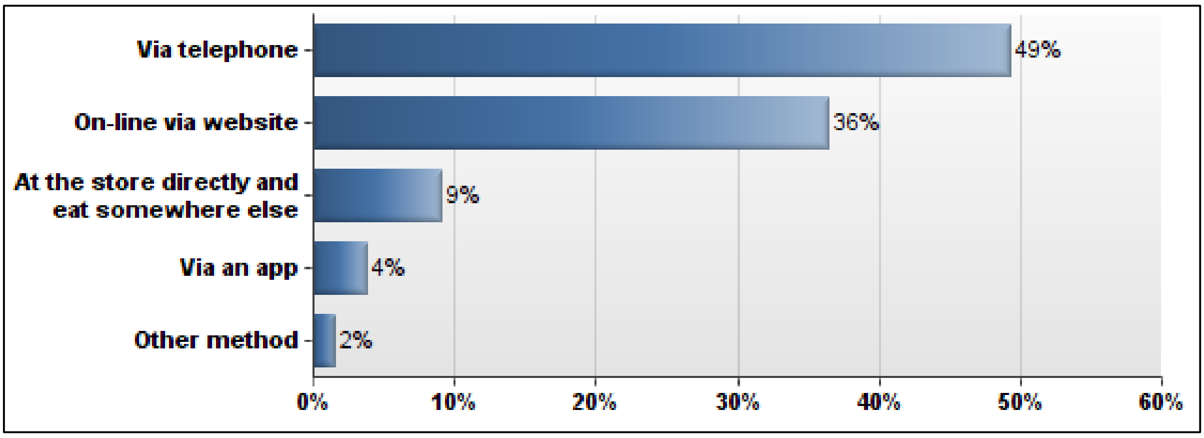
Source: results from survey conducted by the author in April 2016
In % of only those respondents that consumed Pizza

Exhibit 12: "Choose the Top 2 options you use most often to eat Pizza."



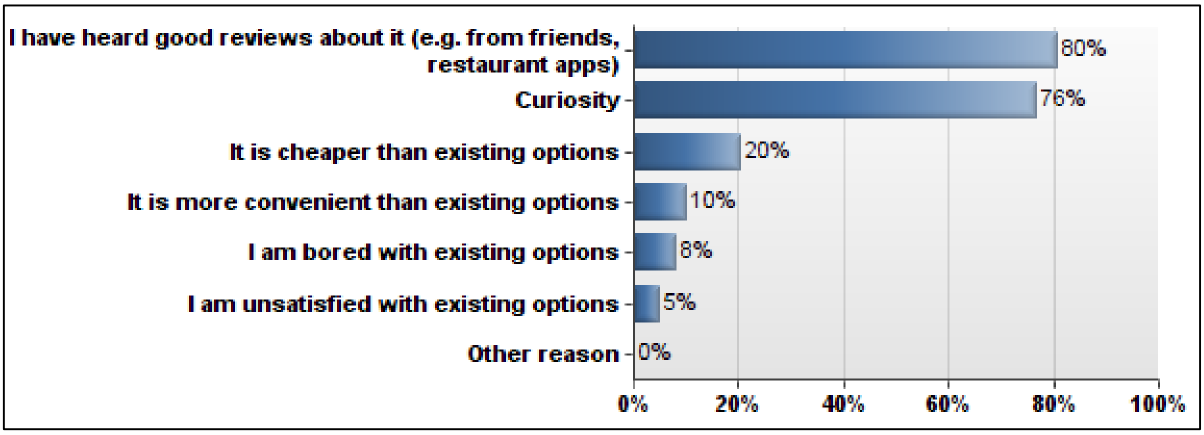
Source: results from survey conducted by the author in April 2016
In % of only those respondents that consumed Pizza

Exhibit 13: "If you do not eat Pizza at the store, how do you usually order it in most cases?"



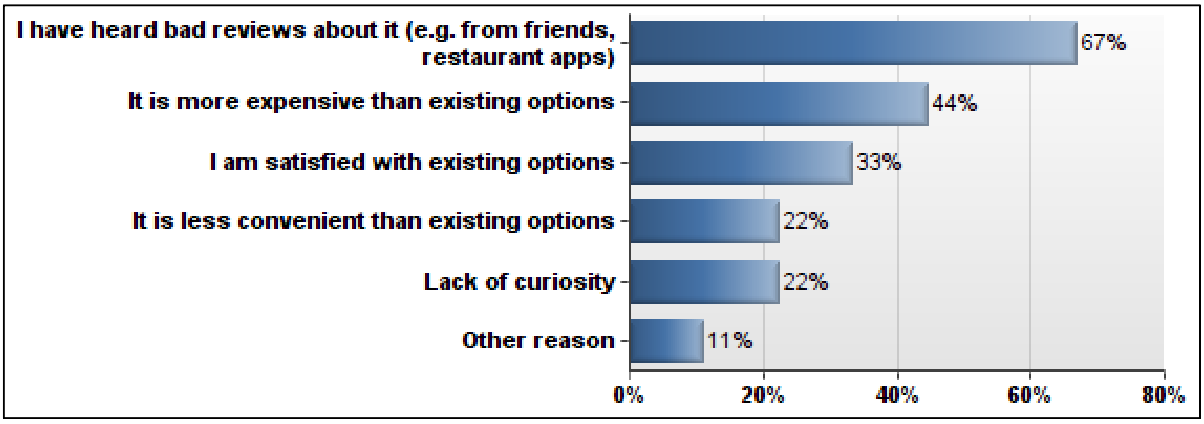
Source: results from survey conducted by the author in April 2016
In % of only those respondents that consumed Pizza

Exhibit 14: "What are the Top 2 reasons that would make you want to try out a new Pizza brand/restaurant?"



Source: results from survey conducted by the author in April 2016
In % of only those respondents that consumed and were open to try out new Pizza

Exhibit 15: "What are the Top 2 reasons that would make you not want to try out a new Pizza brand/restaurant?"



Source: results from survey conducted by the author in April 2016
In % of only those respondents that consumed and were not open to try out new Pizza

Exhibit 16: Comparison of the Portuguese QSP segment's main players

	Domino's	**Telepizza**	**Pizza Hut**
Focus of Business Model	Delivery Take-away Carry-out	Delivery Take-away Carry-out	Dine-in Delivery Take-away
Since when in Portugal (PT)?	June 2015	February 1992	*Date Not Available*
# of stores in PT	7	143	93
Main areas in PT	Only in center of Lisbon (7 stores)	All over the country. Centre of Lisbon (18), Porto (6)	All over the country. Lisbon (10), Porto (6)
Positioning	"*Be the #1 Pizza in the world and in every neighborhood.*" Quality. Proximity. Neighborhood.	"*O segredo está na massa.*" ("The secret is in the dough.") Brand of proximity. Anywhere, any time.	"Moments of Excitement." Family moments. Innovative menu.

Source: company websites

March 2016

Exhibit 17: Price comparison of Domino's, Telepizza and Pizza Hut in Lisbon

Default dough for all	Price limits	Domino's [xxiii]	Telepizza [xxiv]	Pizza Hut [xxv]
Small Size Pizza	Least expensive	*5.95€*	**5.10€**	5.85€
	Most expensive	*9.95€*	9.85€	**9.35€**
Medium Size Pizza	Least expensive	**7.95€**	9.15€	*9.65€*
	Most expensive	**12.95€**	*16.90€*	15.95€
Large Size Pizza	Least expensive	**9.95€**	12.80€	*15.65€*
	Most expensive	**15.95€**	23.30€	*23.95€*

Source: company websites
Cheapest option | *Most expensive option* *May 2016*

Information taken from simulating online ordering in all three company websites in PT and from calling one store of each brand. These were solely the prices of the Pizzas.

The difference between ordering at the store and ordering online were the discounts. Online discounts tended to be presented as "X%" off (e.g. 30% discount on all online orders), while "2 for 1" promotions were mainly possible only when directly ordering at the store.

Exhibit 18: Market share proxy in Lisbon's city area of Domino's' first store

	Domino's	Telepizza	Pizza Hut	TOTAL
Market Shares	**53%**	30%	17%	100%

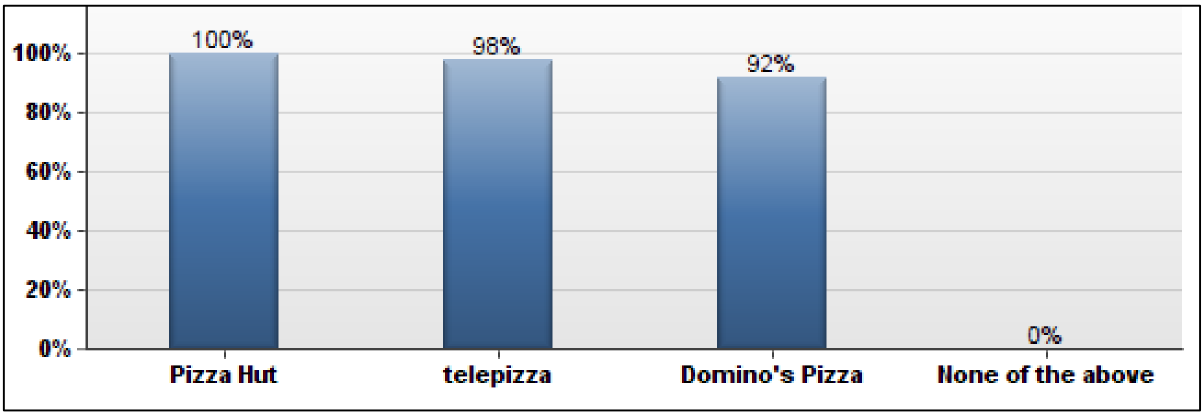
Source: The case study's author conducted this analysis himself, by ordering Pizza from all three stores at the same time of the day twice. Once on April 7th 2016 and once on April 22nd 2016, both at lunch time. The calculation of the market shares presented above were based on the receipt numbers of the orders.

This is a proxy, because it does not necessarily represent Domino's' real market in all of Lisbon and Portugal. Moreover, during the data collection period, Domino's started a campaign which awarded free Pizzas and tickets for a Portugal game in UEFA's European Football Championship 2016 in France for a few lucky customers. Therefore, results could have been influenced by this fact.

The values represent proxy market shares among solely three stores in total – one of each brand – and they are all located in the same city area. Other Pizza restaurants in the area were not taken into consideration, neither were Pizzas sold at hypermarkets.

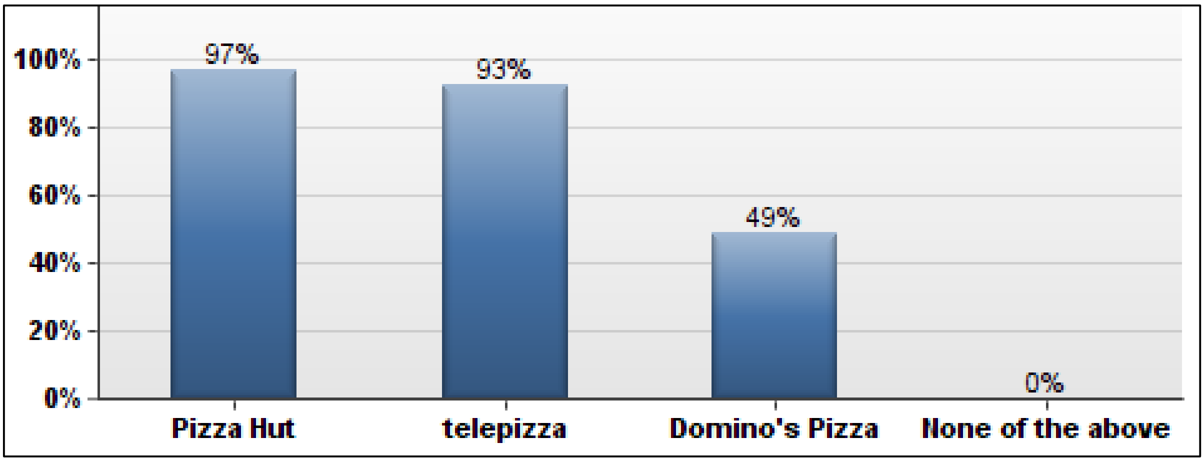
[xxiii] Domino's' prices presented in this column are the same for online and at the store ordering. Minimum online order size: 7.50€ after discounts and it had to include Pizza.
[xxiv] Telepizza's prices presented in this column are the same for online and at the store ordering. Minimum online order size for delivery: 6.95€ (no further pre-conditions mentioned).
[xxv] Pizza Hut's prices presented in this column are the same for online and at the store ordering. Minimum online order size: no pre-conditions mentioned.

Exhibit 19: "Select every Pizza brand you know or have heard of."



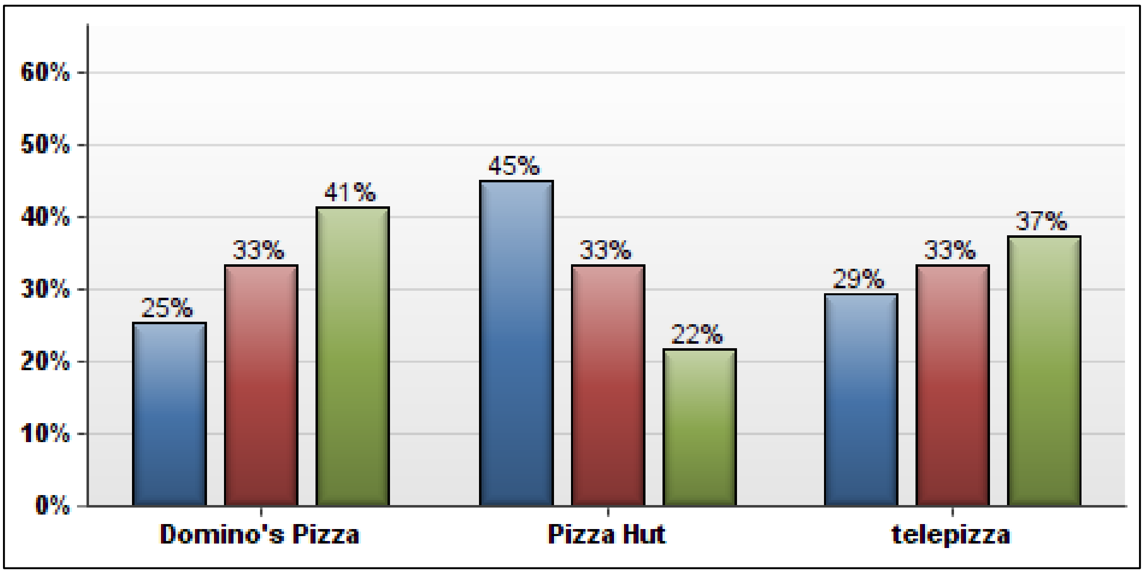
Source: results from survey conducted by the author in April 2016
Note: Brand awareness levels (%) of only those respondents that consumed Pizza. They could choose all three or no brand at all.

Exhibit 20: "From which brand have you eaten at least one Pizza?"



Source: results from survey conducted by the author in April 2016
Note: Brand consumption levels (%) of only those respondents that consumed Pizza and knew of all three brands. They could choose all three or no brand at all.

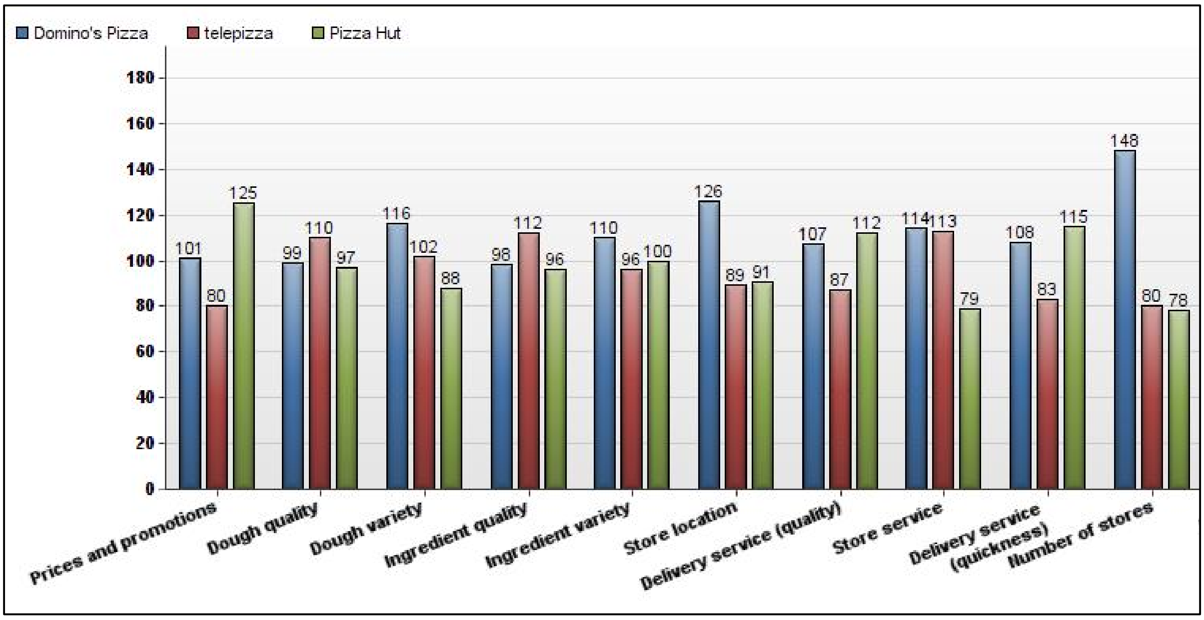
Exhibit 21: "Rank your brand preference."



Source: results from survey conducted by the author in April 2016
Brand preference ranking of all three brands (%) of only those respondents that had consumed at least one Pizza of each brand.

Blue = most preferred brand; Red = second most preferred brand; Green = least preferred brand.

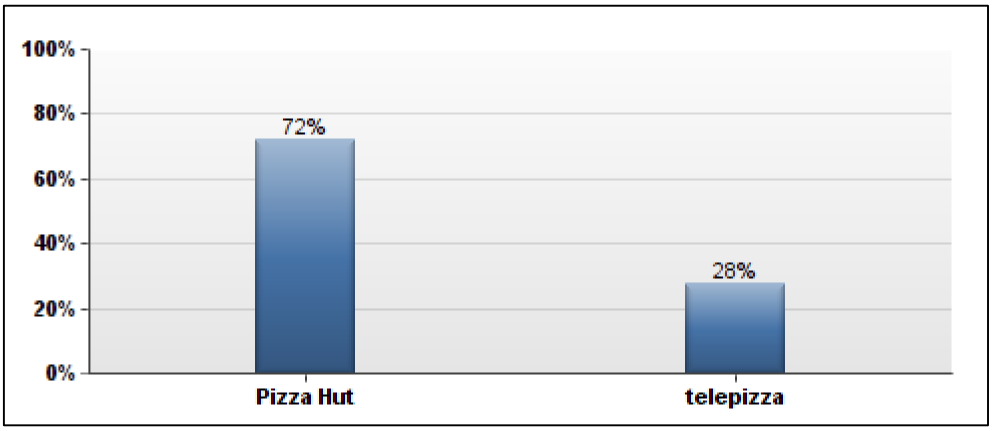
Exhibit 22: "Rank your level of satisfaction with each brand regarding every attribute."



Source: results from survey conducted by the author in April 2016
Brand performance comparison on different criteria based on points attribution of only those respondents that had consumed at least one Pizza of each brand.

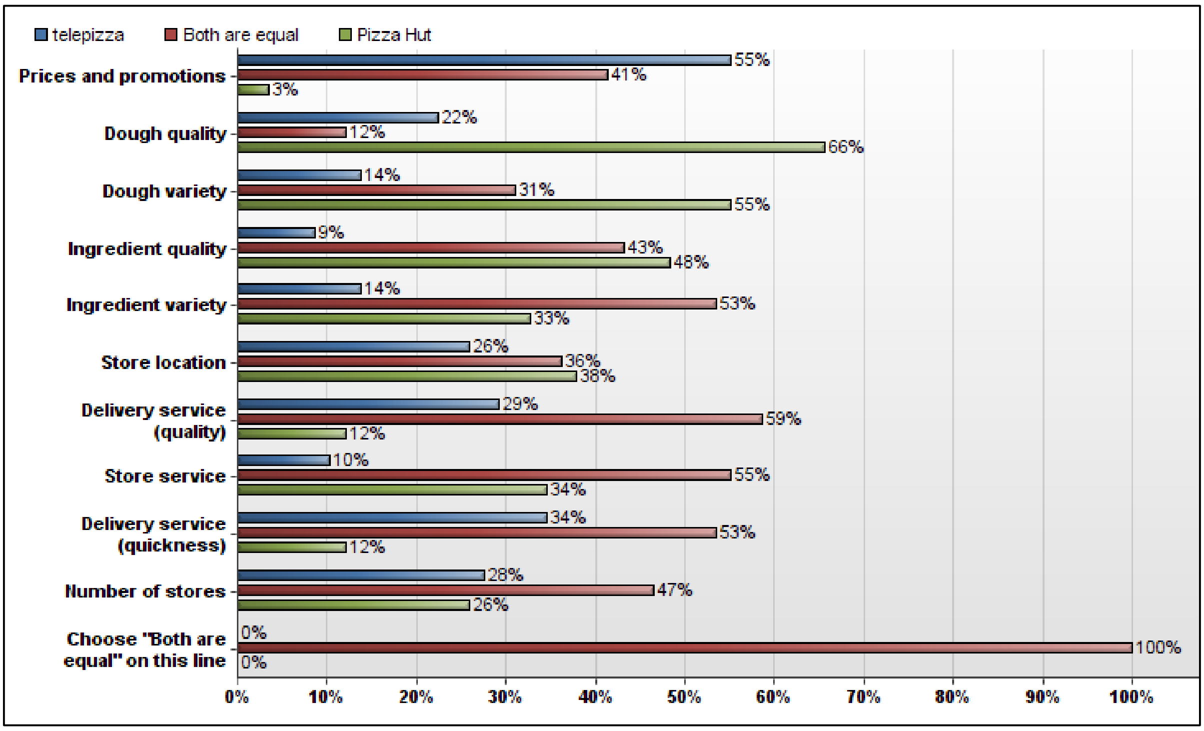
How to interpret the figure? The shorter the bar, the better it is perceived by customers, and vice-versa, e.g.: Telepizza is perceived to have the best prices and promotions, while Pizza Hut is perceived to have the worst.

Exhibit 23: "Which brand do you prefer?"



Source: results from survey conducted by the author in April 2016
Brand preference ranking of two brands (%) of only those respondents that had consumed at least one Pizza of Telepizza and Pizza Hut, and none of Domino's'.

Exhibit 24: "From your experience, which brand does it better in each of the following attributes?"



Source: results from survey conducted by the author in April 2016
Brand performance comparison on different criteria (%) of only those respondents that had consumed at least one Pizza of Telepizza and Pizza Hut, and none of Domino's'.

The last line ("Choose 'Both are equal' on this line") was the control question, to make sure respondents were actually paying attention to the survey. As can be seen, 100% of these respondents were paying attention.

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[66] "tripadvisor" Website, fast-food restaurants in Porto [Online] Available at: https://www.tripadvisor.com/Search?geo=189180&pid=3826&typeaheadRedirect=true&redirect=&startTime=&uiOrigin=&q=fast+food&returnTo=__2F__Restaurants__2D__g189158__2D__zft10646__2D__Lisbon__5F__Lisbon__5F__District__5F__Central__5F__Portugal__2E__html&searchSessionId=204464B602BB361FC70B846D342930751461954795092ssid#&ssrc=e&o=0 [Accessed 29 April 2016]

TEACHING NOTE

Introduction

The present case study was developed by Simão Gomes Silva Ferros Praxedes under the supervision of Professor Paulo Marcos within the scope of the Marketing Case Studies dissertation seminar at Católica-Lisbon School of Business and Economics.

It was written to serve as a teaching tool for instructors to illustrate a particular set of learning objectives. This case is intended to stimulate class discussion and encourage students to act as professional marketers, by approaching and solving real life marketing problems. It being based on real situations, proprietary data has been disguised to preserve confidentiality without compromising its teaching objectives.

This case study is expected to be used in the learning process of university programs related to the field of (global) marketing strategies and price disclosure decisions in market entries of late entrants. The case fulfils the requirements to be used by instructors in the matters of market and consumer analysis.

The assignment questions should be employed to generate class discussion and to test students' preparation of the case and its main points.

Synopsis

In March 2016 Domino's was the world's second largest Pizza company and as part of its global expansion strategy, it entered the Portuguese QSP segment in June 2015 under a Portuguese master franchisee with Spanish investment, with the long-term goal of opening up 100+ stores.

The Portuguese QSP segment presented several red flags: it was a highly fragmented, mature, nearly saturated one and Domino's would compete as a late entrant directly against two players with an already established presence. Although competition would be based on a practically non-differentiable product, the offers of those two players did not change much over their 20+ year long presence in Portugal. Therefore, Domino's saw an opportunity to bring something new to the table.

Domino's' disclosure strategy concerning the delivery fee is central to this case, which focuses on discussing the decision Francis Hill was responsible for: whether to adopt the brand's standard US strategy – the "30 minutes or delivery is free" concept – or to adapt it to the Portuguese market, where its direct competition did not disclose this fee and did not make that promise. A final decision was projected to be reached before June 2015.

At this stage, Domino's decided to not disclose the delivery fee, communicating that delivery was always free and that it estimated delivery to take around 20-30 minutes, i.e. no promise was made.

Suggested Assignment Questions

As preparation for class discussion, students are expected to answer the following questions, individually or in groups, with the intent to guide them through their analysis of the case, providing the insights needed to solve its dilemma:

1. What was the Portuguese QSP segment like in 2015/2016? Feel free to use one (or several) fitting framework(s).
2. What is the potential market size of delivery services in this segment in 2015, in units of Pizzas ordered and in Euros (€)? Present a defined value, or a minimum and maximum size, as well as the assumptions you made.
3. What reason(s) made Domino's enter the Portuguese QSP segment? What were Domino's' biggest challenges upon market entry?
4. Imagine you are Francis Hill. What price disclosure strategy regarding a delivery fee do you propose as the best for market entry? Would you adopt or adapt the "30 minutes or delivery is free" concept?

Teaching Objectives

The following objectives are intended to be reached by studying and solving the case:

- To help students comprehend the factors marketers consider along the development of market entry strategies;
- To have students understand the importance of analyzing consumer behavior and profile to better define crucial strategic aspects (e.g. positioning);
- To familiarize students with the Pizza market and its dynamics;
- To introduce different pricing methods/techniques;
- To present students the effects of human irrationality on consumption behavior;
- To provide information for students to come up with solutions based on quantitative and qualitative solid arguments.

Use of Case Study

This case's purpose is to present undergraduate and graduate students a realistic business situation, enabling them to develop a perspective on which factors influence price disclosure decisions. Instructors may use this case to address marketing issues related to market entry, global marketing strategies, consumer purchasing behavior and pricing, in courses/seminars such as Marketing 101, International Marketing, Strategic Marketing, Price Management and Decision Making.

The case has been constructed for a 90-minute lecture. To prepare students for class discussion, instructors have three alternatives:

- Ask students to answer the case's Suggested Assignment Questions;
- Adapt those questions to the specific needs and requirements of the course/seminar;
- Provide students only the main dilemma for them to analyze and solve themselves.

Relevant Theory

The following readings are recommended for students to be prepared for class discussion and to have a deeper knowledge on late entrants' strategic choices in a mature market, on the debate adaptation versus standardization in global marketing strategies and on price disclosure regarding delivery fees. Depending on the course material, instructors may opt to require students to read all of them, or to choose only some.

- Cheema, A (2008), "Surcharges and Seller Reputation", Journal of Consumer Research, Vol. 35, No.1, pp. 167-177
- Chowdhury, TG, Madhavaram, S, Ratneshwar, S, & Standifer, R (2013), "The Appropriateness of Different Modes of Strategy from a Product-Market Perspective", Journal of Strategic Marketing, Vol. 22, No. 5, pp. 442–468
- Kalyanaram, G & Gurumurthy, R (1998), "Market Entry Strategies: Pioneers Versus Late Arrivals", strategy+business, Issue 12, [Online] available at: http://www.strategy-business.com/article/18881?gko=64116 [Accessed 16 May 2016]
- Koukova, NT, Srivastava, J, & Steul-Fischer, M (2012), "The Effect of Shipping Fee Structure on Consumers' Online Evaluations and Choice", Journal of the Academy of Marketing Science, Vol. 40, pp. 759–770
- Vrontis, D, Thrassou, A, & Lamprianou, I (2009), "International Marketing Adaptation Versus Standardization of Multinational Companies", International Marketing Review, Vol. 26, Nos. 4/5, pp. 477-500

- Wilkie, DCH, Johnson, LW, & White, L (2012), "The Impact of Low-Price Brands on the Order of Entry Advantage", Journal of Marketing Management, Vol. 28, Nos. 7–8, pp. 957–973

It is also expected for students to be familiar with the following concepts:

- Political, Economic, Social and Technological (PEST) Framework Analysis
- Product Life Cycle (PLC) Framework
- Porter's 5 Forces Model of Competition

Literature Review

This chapter presents numerous results from marketing and economics literature that are relevant for the main theoretical components of this dissertation.

Late Entrant in a Mature Market

Wilkie, Johnson and White (2012) indicate that consumer preferences follow the sequential order of brand entry in a market (Kardes & Kalyanaram, 1992), a conclusion that lead to the generalization known today as the *order of entry effect*: the first brand into a market has the opportunity to create a sustainable market advantage over later entrants (Kalyanaram, Robinson, & Urban, 1995). In fact, on average, order of entry has a significant and positive impact on market share (Szymanski, Troy, & Bharadwaj, 1995), while the relationship between entry order and a firm's competitive strategy has a significant effect on the firm's financial performance (DeCastro & Christman, 1995), as mentioned by Rodkin and O'Keefe (2011). Nevertheless, previous research indicated by Rodkin and O'Keefe (2011) also concluded that factors including the entrants' degree of product innovation experience and available distribution channels can increase the likelihood of late entrants succeeding in a mature market, as market evolution changes the requirements for success (Robinson, Fornell, & Sullivan, 1992).

For late entrants to overcome the market share penalty associated with the effect described above, these companies should focus on strategies that can change consumer preferences, which lead to more sustainable market share gains (Shankar *et al.*, 1998; Vakratsas *et al.*, 2003), as mentioned by Wilkie, Johnson and White (2012). However, the latter ones (2012) also indicated that several barriers must be overcome by late entrants to shift consumer preferences, because consumers use the pioneer as benchmark (Carpenter & Nakamoto, 1989) and learn best the attributes of early entrants, having thereby more knowledge that translates into more strongly held beliefs and greater confidence in choice (Kalyanaram & Gurumurthy, 1998). More recent research mentioned by Anderson and Simester (2013) supports Carpenter and Nakamoto's (1989) findings, concluding that, when products are similar, customers' quality beliefs about the first entrant can influence their prior beliefs about the quality of subsequent entrants (Janakiraman, Sismeiro, & Dutta, 2009).

Given that competitive strategies usually depend on the market environment as well as on the positioning and product portfolio of the existing players, the first key step a late entrant has to take in order to overcome a market share disadvantage is to substantially differentiate itself in the consumers' minds (Kalyanaram & Gurumurthy, 1998). A low-price differentiation strategy may therefore be an effective one for late entrants, because it can shift consumer preferences and market share away from the pioneer by providing a motivating point of difference (Wilkie, Johnson, & White, 2012). Kalyanaram and Gurumurthy (1998) suggest that, although this strategy can result in reduced margins for the new entrant, it can also expand the total market, attracting new customers who would not have otherwise consumed such a product.

As indicated by Wilkie, Johnson and White (2012), marketers have to keep in mind though that the likelihood of consumers switching to a low-price brand depends on their perceptions of the product and the category (Ailawadi *et al.*, 2008; Garretson *et al.*, 2002; Glynn & Chen, 2009) as well as their category knowledge, while consumers' preferences will shift towards the pioneer brand if there is any uncertainty concerning the performance of a low-price brand on factors like the perceived quality variation between the low-price and pioneer product as well as the perceived risk and value benefit in buying the low-price brand (Kalyanaram, 2008).

Being a late entrant is already challenging enough for a firm, even more so when it enters a mature market. As mentioned by Chowdhury *et al.* (2013), firm performance is required to have an appropriate match of strategy with external (Calantone *et al.* ,1994; Pelham, 1999; Karakaya & Kerin, 2007) and internal environments (Calantone, di Benedetto, & Bhoovaraghavan, 1994), as the complexity of marketing environments varies for products in different product-market life cycle (PLC) stages (Day, 1981). The latter ones are the basis of the PLC framework (see figure 1 for simplified conceptualization), which, according to Chowdhury *et al.* (2013), has been considered as the most fundamental variable to determine an appropriate business strategy (for a review of PLC research, see Rink & Swan, 1979), because there are distinct sets of opportunities and threats concerning profit making at each unique PLC stage (Kotler, 1980).

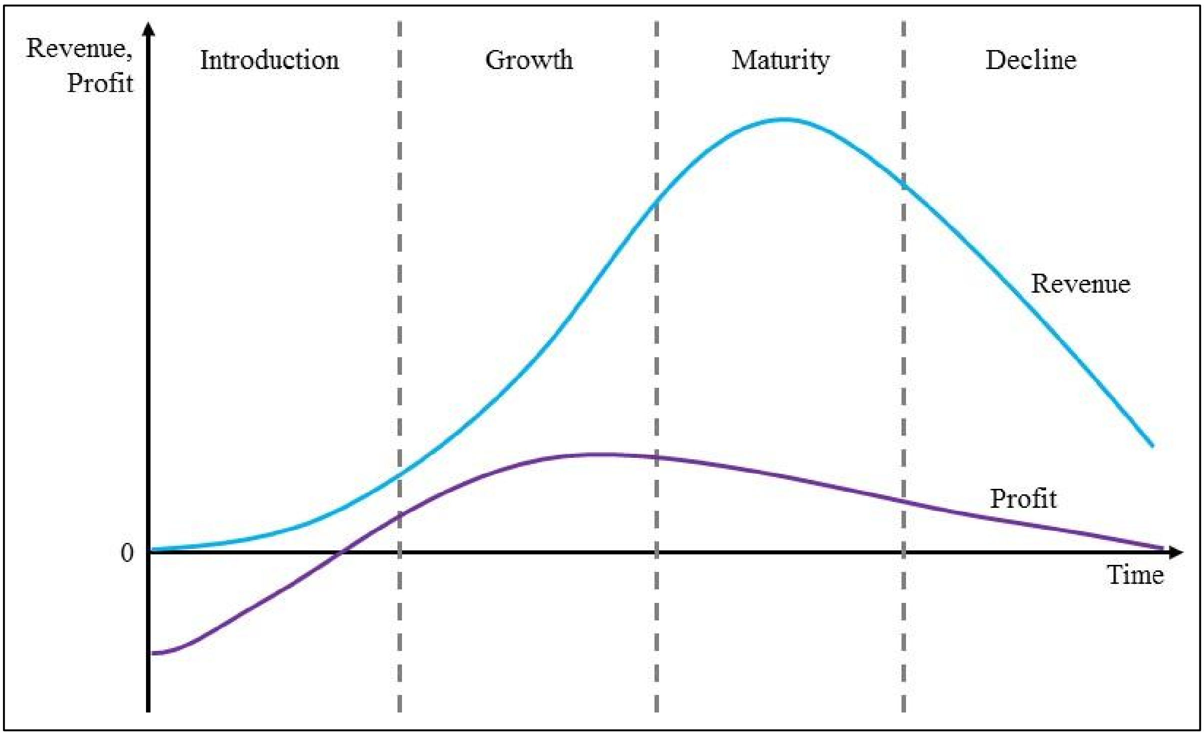


Figure 1: Product-market life cycle stages – a simplified conceptualization
Source: Made by author, adapted from Kotler, Armstrong, Wong and Saunders' "Principles of Marketing", 5th European edition (2008), p. 571

Focusing on the maturity stage of the PLC – where sales growth slows down or levels off (Kotler *et al.*, 2008) – Chowdhury *et al.* (2013) mention that companies in it should focus on providing superior performance and excellent customer service at an appealing price point, i.e. a value marketing strategy (Slater & Olson, 2001), and that firm's employees are vital to execute this kind of strategy profitably (Michlitsch, 2000). Consequently, organizations in product-markets – marketplaces where solely finished goods and final services are sold and bought, not including trading of intermediate materials – that are mature should focus on employee motivation, commitment and innovative behavior, creating a strong sense of identity, as well as on continuous dialog (Chowdhury *et al.*, 2013).

Adaptation versus Standardization in Global Marketing Strategies

After having reached the decision of expanding beyond its domestic market, a company has to choose how to approach its expansion: whether to adapt and/or adopt its standard strategies and tactics – the ones applied in its domestic market – to the new local market. Important to mention is the fact that a business in this situation should not make this a one-time choice (Vrontis, Thrassou, & Lamprianou, 2009).

Vrontis, Thrassou and Lamprianou (2009) mention that Elinder (1961) started the debate of adaptation vs. standardization in 1961, considering it in the context of worldwide advertising, and has since expanded to the entire marketing mix (Schultz & Kitchen, 2000; Kanso & Kitchen, 2004; Kitchen & de Pelsmacker, 2004).

There is no one-size-fits-all solution for this debate. Vrontis, Thrassou and Lamprianou (2009) highlight that marketing reality for multinationals is on neither extreme – fully standardized or fully adapted – as both alternatives are likely to coexist within the same company, product line or brand (Kitchen, 2003; Vrontis, 2003; Soufani *et al.*, 2006). Moreover, Vrontis, Thrassou and Lamprianou (2009) mention that several authors reject the extreme approaches, underlining the difficulty in applying them in practice and stressing the importance and necessity of both adaptation and standardization to be used simultaneously (Boddewyn *et al.*, 1986; Choi & Jarboe, 1996; Douglas & Wind, 1987; Hennessey, 2001; Kim & Mauborgne, 1987; Main, 1989; Prahalad & Doz, 1986; Sorenson & Wiechmann, 1975; Terpstra & Sarathy, 1997; van Raij, 1997; Vrontis, 2003; Vrontis & Papasolomou, 2005). Vrontis, Thrassou and Lamprianou (2009) indicate this conclusion is supported by practical evidence suggesting companies make contingency choices based on key determinants in each circumstance (Vrontis *et al.*, 2006), such as macro-environment factors, e.g. climate, race, topography, occupations, taste, law, culture, technology and society (Czinkota & Ronkainen, 1998), as well as consumer tastes, disposable income, taxation, nationalism, local labor costs, literacy and levels of education (Paliwoda & Thomas, 1999).

More recent research supports the idea that at a tactical level it is, in the majority of cases, not recommended for companies to attempt complete heterogeneity of the marketing mix (product, price, place, promotion, people, physical evidence, process management, etc.), especially where continued and clear differences exist between different countries and markets, while complete homogenization can be considered irrational (Vrontis, Thrassou, & Lamprianou, 2009).

In fact, this decision is a matter of degree. A fully adapted approach brings on huge costs, and differences at an organizational level as well as of countries, of macro and micro environmental factors make it very difficult to successfully conduct a 100% standardized approach (Vrontis, Thrassou, & Lamprianou, 2009). Consequently, figure 2 can help decide to what degree companies standardize and adapt their tactics.

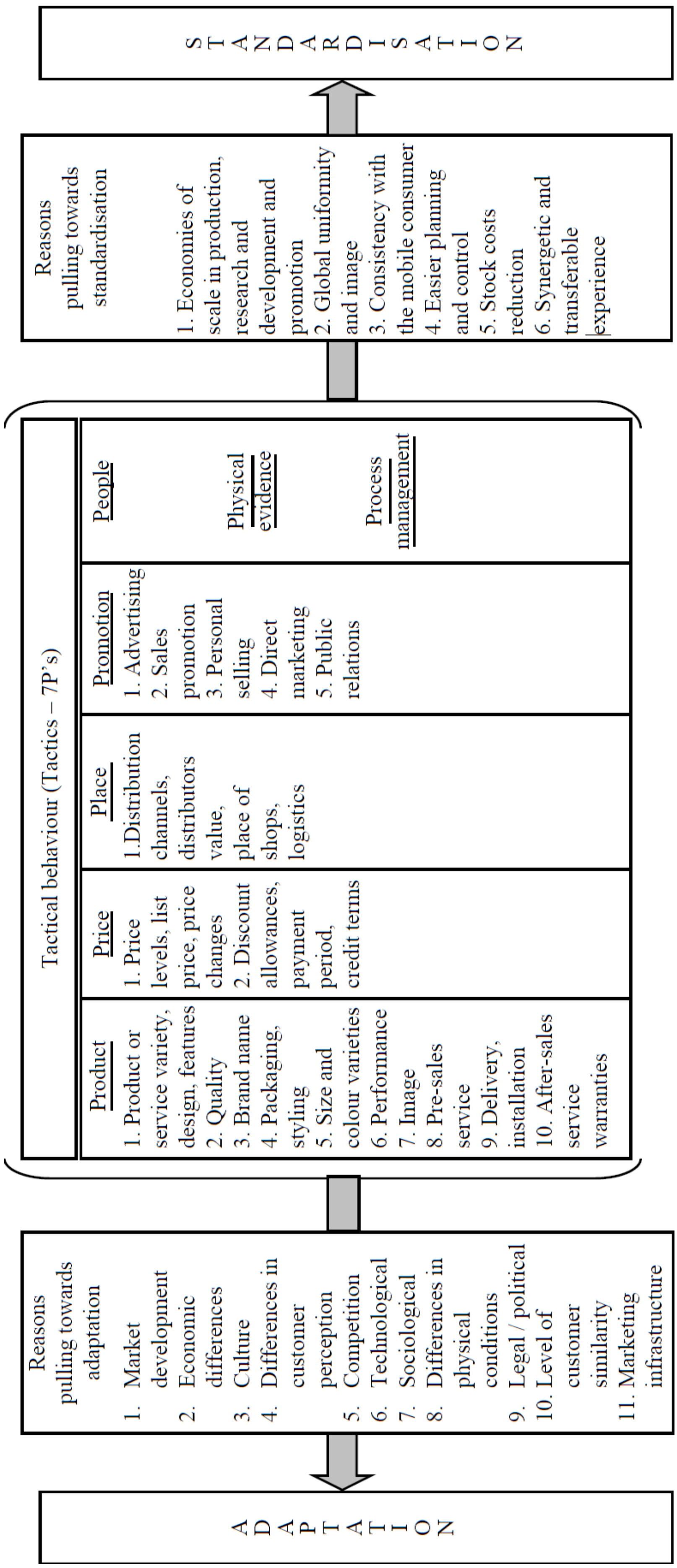


Figure 2: Toward standardization or adaptation – a conceptualization
Source: Vrontis, Thrassou, and Lamprianou (2009), adapted from Vrontis (2003)

Taking a step further on these findings, Vrontis, Thrassou, and Lamprianou (2009) concluded that the marketing reasons presented in figure 2 do have different degrees of influence on (multinational) companies' tactical behavior. As a consequence, those reasons can be separated into two categories: "significant" and "peripheral" reasons. The latter ones affect international marketing tactics to a lesser extent. Figure 3 summarizes researchers' findings:

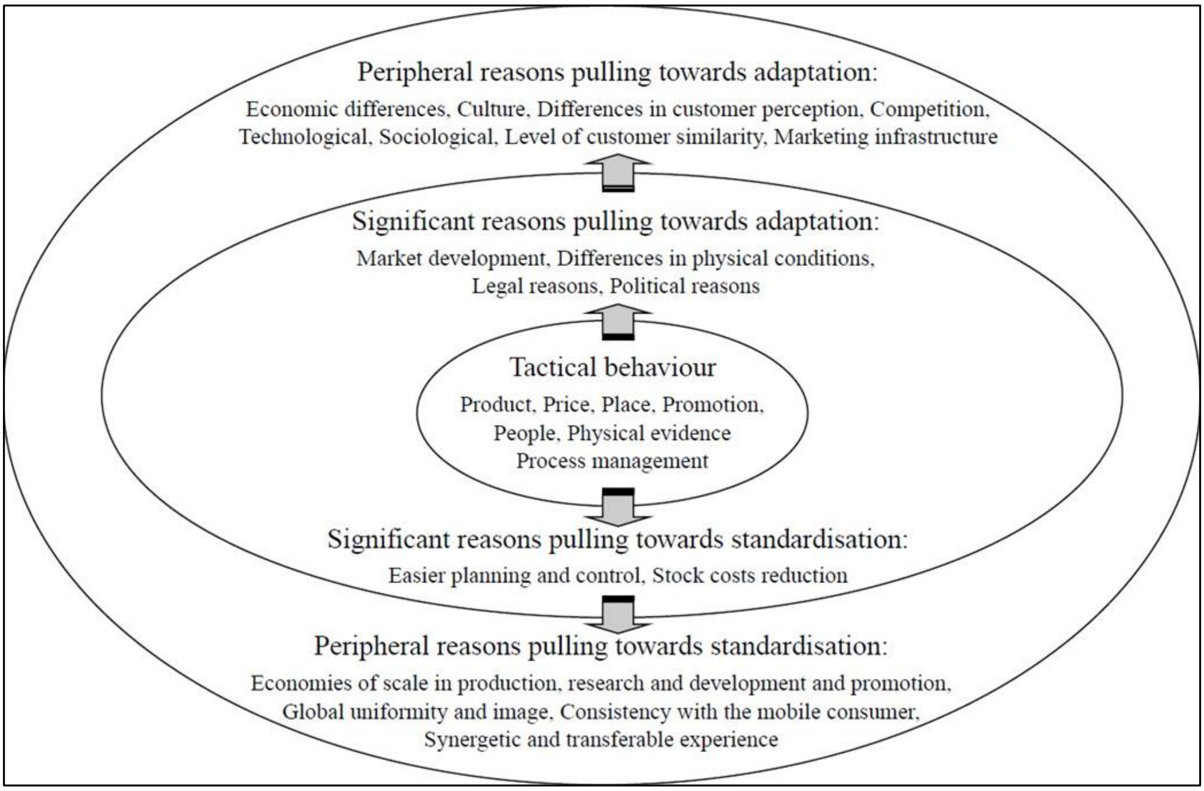


Figure 3: Significant and peripheral reasons towards standardization or adaptation (research-produced)
Source: Vrontis, Thrassou, and Lamprianou (2009)

Chung (2008) indicates previous research (e.g. Boddewyn, Soehl, & Picard, 1986) suggests that a highly competitive environment leads to the use of a highly adapted marketing mix. Furthermore and more specifically, the more intense market competition is, the higher the likelihood of a firm choosing a price adaptation strategy (Chung, 2008), this result being consistent with previous literature (Hill & Still, 1984; Jain, 1989; Katiskeas *et al.*, 2006; Ozsomer *et al.*,1991; Sorenson & Wiechmann, 1975).

Regarding factors internal to a company, Chung (2008) mentions that the size of a firm may also influence its tactical behavior, as it is reported that large-size organizations are likely to employ an adaptation strategy given the amount of resources required to execute it (Chung, 2002; Xu *et al.*, 2006).

One possible alternative to incorporate elements of both extreme approaches – fully standardized or fully adapted – is glocalization. As indicated by Matusitz (2010), Robertson (1994) developed this theoretical concept as a blend of the words 'globalization' and 'localization'.

Being glocal means an organization is willing and able to think globally (standardize at a strategic level) and act locally (adapt at a tactical level, i.e. its marketing mix) to meet the requirements and challenges presented by different countries, cultures and markets (Vrontis, Thrassou, & Lamprianou, 2009).

McDonald's is a good example for a company that follows this strategy. This fast-food giant replicates its corporate symbols and philosophy on a global scale, while at the same time adjusting to local tastes and preferences e.g. through its menu (Matusitz, 2010).

Price Disclosure

Internet use has a strong positive impact on customer retention – which is crucial for firms' success in mature and in highly competitive markets – i.e. those customers using the Internet channel tend to have a significantly longer average lifetime (Boehm, 2008). Furthermore, Young, Clark, and McIntyre (2006) mention the fact that customers ordering online spend 15% more per ticket than when they order by telephone (Coomes, 2006) and that utilitarian motives, such as price and time savings as well as service excellence and merchandise selection, are listed by Lee and Overby (2004) as the primary reasons for the popularity of online purchasing. Further research supports this conclusion, with convenience, time utility and accuracy of order – due to the complete control of the purchase transaction – standing out as the main benefits of using an e-commerce ordering system, as opposed to traditional telephone system (Young, Clark, & McIntyre, 2006).

As indicated by Cheema (2008), partitioned prices – composed by the product price and a surcharge, such as a delivery or shipping fee – can be found everywhere on the Internet (Xia & Monroe, 2004), given the spatial separation between the consumer and the physical good. Koukova, Srivastava and Steul-Fischer (2012) mention that this separation makes it necessary for firms to incur order assembly and delivery costs (Rosen & Howard, 2000), which are typically passed on to consumers in the forms of shipping fees to recoup those costs (Barsh *et al.*, 2000). Considering that shipping surcharges may deter ordering by current and prospective customers (Lewis, 2006), companies are therefore required to have a shipping policy that balances not only the need to recover delivery costs but also the need to attract and retain customers (Koukova, Srivastava, & Steul-Fischer, 2012). The fact that shipping policies penalizing larger orders lead to reduced order size, and that higher fees reduce ordering rates (Lewis, 2006), presents firms an additional challenge when setting up their policy.

Organizations have to keep in mind that there are several factors influencing consumers' perception of partitioned prices, specially their perception on the fairness of shipping policies. Koukova, Srivastava and Steul-Fischer (2012) mention that fairness perceptions have been proven to influence consumers' reactions to prices (Campbell 1999; Kahneman *et al*. 1986) and that one reason for it is that consumers are skeptical of shipping charges, since they may be viewed as a way for companies to make additional profits (Schindler *et al.* 2005). In fact, given that disclosing a previously unknown delivery fee could be seen as a price increase by consumers, it is important to highlight the *principal of dual entitlement* indicated by Campbell (1999): consumers perceive price increases to be on the one hand unfair when a firm does it to solely increase profits and on the other hand fair and justified if the firm's sole purpose is to cover an increase in costs, i.e. its profit remains the same (Kahneman, Knetsch, & Thaler, 1986). More recent research concluded that perceptions of unfairness – which when perceived leads to lower shopping intentions – are influenced not only by what firms communicate about their decisions' motives, but also by what consumers know and learn about firms (Campbell, 1999). Therefore, companies should integrate communication and pricing decisions, i.e. the latter ones should be taken considering the need to communicate the price and reasons behind it (Campbell, 1999).

In addition, as mentioned by Koukova, Srivastava, and Steul-Fischer (2012), the surcharge is an important component that likely influences consumers' online purchasing behavior and decision making. A fact that supports this previous conclusion is that evaluations of shipping policies are reference dependent, i.e. they depend on the comparison of the absolute and relative value to some referent (Kahneman & Tversky, 1979).

According to the *prospect theory* by Kahneman and Tversky (1979), price perceptions and judgements can be mapped as subjective utility functions, where subjective gains and losses of an option are measured in comparison to a reference point. Loss aversion – a loss of proportionally equal size as that of a gain is valued more than that gain (e.g. losing 10€ is more valued than finding/winning 10€) – can be visualized in figure 4 and has serious managerial implications: the response to price increases (losses) will be stronger than to price reductions (gains). In other words, consumers will perceive partitioned prices as more unpleasant than consolidated prices (e.g.: paying 7€ plus 3€ separately for an order is worse than paying 10€ altogether for the same order; these are losses), while several smaller individual discounts on one order will be more valued than one larger total discount on the same order (these are gains).

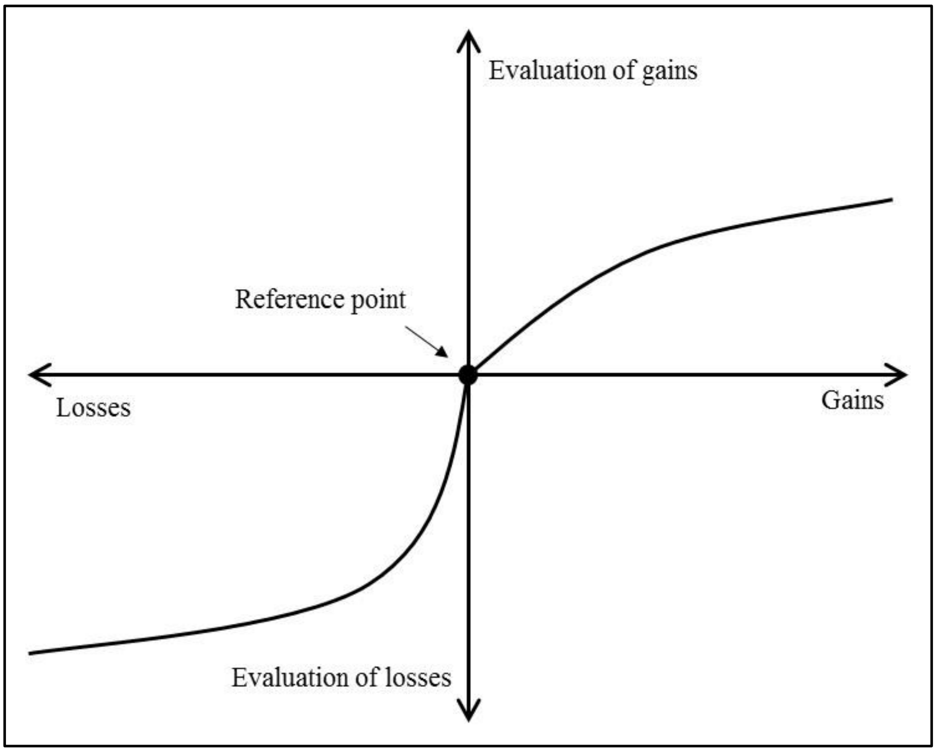


Figure 4: Prospect theory – loss aversion visualization
Source: Made by author, adapted from Kahneman and Tversky (1979), p. 279

Going into more detail of the partitioned components, Hamilton and Srivastava (2008) mention that Smith and Brynjolfsson (2001) concluded, after analyzing online book purchase data – book: a product that is partially in the same price range as Pizza – that consumers are almost twice as sensitive to changes in the shipping fee than to changes in the price of the book. This conclusion is supported by more recent research that found that consumers are more sensitive to the price of the less important partitioned components with low consumption benefits (example: delivery), than to the price of the more important components that also provide relatively higher consumption benefits (Hamilton & Srivastava, 2008). Thus, companies should price components of low perceived benefits more competitively (Hamilton & Srivastava, 2008).

Additionally, one proven moderating factor on consumer reactions to partitioned prices is seller reputation: the impact of surcharges on purchase is more detrimental for low-reputation sellers – low-reputation caused by lack of consumer trust towards them – which instead should opt for consolidated (non-partitioned) prices, where the surcharge is not disclosed (Cheema, 2008).

Class Analysis and Discussion

What follows is a detailed guide to direct class discussion around Domino's' case study. It is recommended that instructors lead the discussion by following the Suggested Assignment Questions. The analysis that follows is organized accordingly.

Instructors are recommended to start class discussion with a brief summary of the case, as students should be able to demonstrate their understanding of the company's background, the situation it is in and the potential solutions that could be implemented. Having made this introduction, the following course of discussion is proposed.

1. **What was the Portuguese QSP segment like in 2015/2016? Feel free to use one (or several) fitting framework(s).**

The first step to solve the dilemma is to understand market conditions. Three frameworks are expected to be used to answer this question: the Political, Economic, Social and Technological (PEST) analysis, the Product Life Cycle (PLC) framework and Porter's 5 Forces Model.

The case contains information for the 'EST' analysis. Instructors may ask students to analyze Portugal's political situation in 2015/2016. Case study's page 5 includes information regarding an economic aspect of Portugal (unemployment) and some of the country's social aspects (population growth, age profile), while information for the technological analysis can be found on pages 5/6 (internet usage/familiarity, infrastructure).

Regarding the PLC analysis, the main aspect students should mention is that the market is in its maturity phase, where sales growth tends to slow down and/or level off. If it fits the course/seminar, instructors may ask students to perform a more detailed analysis of the impact this fact has on company performance and strategy.

Using Porter's 5 Forces model, students should have the following picture based on facts presented and indicated on pages 2, 3 and 6 to 9 of the case:

- Overall level of competition: Medium-High (Scale: 5 points; limits: Low, High)
- Industry rivalry: High
    - Mature, nearly saturated, highly fragmented market;
    - Low product differentiation;
    - Low to non-existent buyers' switching cost;
    - High price transparency (store flyers, online);
    - Low (-medium) customer loyalty.

- Threat of new entrants: Medium
  - Several costs present entry barriers, such as with store staffing and coaching, store space, delivery fleet (optional), kitchen equipment and logistics;
  - Opportunities or lack of them concerning potential store space may slow down the execution of the store location strategy.
- Threat of substitutes: Medium-High
  - Level 1 of substitutes (most threatening): Italian full-service restaurants, frozen Pizza
    - Prices and product quality are relatively similar to those of QSP players' Pizza.
  - Level 2: Sushi and fast-food restaurants (e.g. McDonald's)
  - Level 3: All other types of food
- Bargaining power of buyers (the Portuguese consumer): High
  - Low product differentiation;
  - Low to non-existent switching costs to competitors;
  - Low switching costs to substitutes;
  - Low brand loyalty;
  - Low unit price.
- *(Bargaining power of suppliers: not relevant for this case)*

2. **What is the potential market size of delivery services in this segment in 2015, in units of Pizzas ordered and in Euros (€)? Present a defined value, or a minimum and maximum size, as well as the assumptions you made.**

In reality, marketers have, in the majority of cases, to make decisions based on incomplete information and assumptions, which is exactly what students are expected to do here. Their calculations' line of reasoning matters more than their final number(s).

Relevant information to answer this question can be found on case study's:

- Page 5: Portugal's total population, urbanization level, age structure and unemployment rates
- Page 6: Frequency of consumption (Exhibit 10); preferred options to consume Pizza (Exhibit 12)
- Page 21, exhibit 17: Pizza prices

Students are recommended to take the following steps (the answer that follows is one example to find a defined market size value):

1) Determine how many people may have an interest in consuming Pizza from QSP players, i.e. the potential target:
    a. Total population: 10,400,000 people (assumption: population in 2015 was the same as in 2016)
    b. Urbanization level: 63% (assumption: a small increase occurred from 2014 to 2015)
    c. Target (15-64 year-olds in the urban areas): 70% (assumption: younger people live mostly in the urban areas of the country, where QSP players are mainly located)
    d. Calculation: A=10,400,000*0.63*0.70
    e. **A=Potential target=4,586,400 people**

2) Determine how many people afford consuming Pizza from QSP players
    a. Use unemployment rates as a guide (assumption: 35% of the target is unemployed and/or not willing to consume Pizza)
    b. Calculation: B=A*(1-0.35)
    c. **B=Potential target with interest and buying power=2,981,160 people**

3) Determine how often people in (2) use Pizza delivery services per year
    a. Use exhibit 10 to define how frequently consumers of all Pizzas eat them per year (assumptions: 1 year has 12 months, 1 month has 4 weeks):
        - Calculation: C=12*(8*0.01+4*0.1+2*0.21+1*0.47)+2*0.12+1*0.06+0*0.03
        - C=16.74 times per year
    b. Use exhibit 12 to underline those that use delivery services of QSP players (27.5%):
        - Calculation: D=B*0.275
        - D=819,819 people
    c. Final calculation: E=C*D
    d. **E=Delivery service consumption=13,723,770 orders per year**

4) Determine the potential market size in units of Pizza
    a. Assumption: average size of order=one medium-sized Pizza
    b. Calculation: S_u=E*1
    c. **S_u=TOTAL MARKET SIZE IN UNITS=13,723,770 Pizzas**

5) Determine the average Pizza price
    a. Use exhibit 17 for guidance, assuming the average medium-sized Pizza price
    b. Calculation: P=((7.95+12.95+9.15+16.90+9.65+15.95)/6)€
    c. **P=Average Pizza price=12.09€**

6) Determine the potential market size in Euros
    a. Calculation: $S_€=S_u$*P
    b. **$S_€$=TOTAL MARKET SIZE IN €=165,920,379 €** (This is a reasonable value, since, according to a confidential source, the total size of the Portuguese delivery market including only Domino's, Pizza Hut and Telepizza was estimated to be around 140 to 150 million €.)

3. **What reason(s) made Domino's enter the Portuguese QSP segment? What were Domino's' biggest challenges upon market entry?**

After analyzing the market, students should now be able to understand Domino's' situation.

According to Francis Hill, consumers were bored with the same old Telepizza and Pizza Hut offers. Domino's had therefore the opportunity to present something new, this being the only reason mentioned in the case (page 10) for Domino's entering Portugal.

The PEST analysis already highlighted some challenges: stagnant population size, aging population with worrying unemployment rates and relatively low internet use. These presented difficulties in terms of market size and potential as well as of consumer buying behavior and limited power. Moreover, as analyzed with Porter's 5 forces model, the segment was very competitive. The challenges presented by Domino's' late entrant position in a mature market should also be mentioned and can be found on case page 11 (order of entry effect, pioneer as benchmark, differentiation strategy and execution).

Additionally, despite it being a market where consumers gave more importance to the product (Pizza) than to brands, Domino's would have no market reputation and little to no brand awareness among consumers. Furthermore, given that word-of-mouth played a huge role in product trial and the brand's growth, Domino's had to be perfect from the start, especially regarding customer service and Pizza quality.

Moreover, finding the right balance between standardization and adaptation of marketing mix tactics would be challenging, as Hill & co. were recommended to consider the following factors: macro-environment ones, such as climate, race, topography, occupations, taste, law, culture, technology and society, as well as consumer tastes, disposable income, taxation, nationalism, local labor costs, literacy and levels of education.

4. **Imagine you are Francis Hill. What price disclosure strategy regarding a delivery fee do you propose as the best for market entry? Would you adopt or adapt the "30 minutes or delivery is free" concept?**

This final question addresses the case's main dilemma. Students are supposed to develop solutions regarding the fee and the "30-minute delivery" promise. Creative solutions are welcome, as long as they are based on solid quantitative and qualitative arguments. These should preferably be developed from information and data presented in the case, especially from case pages 10/11, where findings from appendices 4 and 5 are paraphrased. If found relevant, instructors may share appendices 6 and 7 with students. The questions asked in the case's "Conclusion" chapter can give an insight on how creative solutions can be:

a. Not disclose a fee and not make the "30-minute" promise, i.e. copy direct competition;
b. Apply the standard "30 minute or delivery is free" concept, and define how to compensate customers when promise is not delivered;
c. Not disclose a fee, but make the promise, to communicate excellent customer service. In this case execution has to be on point, or else customer dissatisfaction leads to negative word-of-mouth;
d. Disclose and charge a threshold fee, i.e. after a certain order size (e.g. 20€) delivery is free), and make (or not) the promise;
e. Only make the promise to those that are willing to pay the fee, i.e. the fee would be communicated as a guaranty of quicker service, i.e. a gain (as if a customer is paying to get ahead of the line). The choice to pay or not for the quicker service, i.e. for the fee, would be taken by the customer. In this solution, the fee would be seen as not only a loss (paying) but also a gain (quicker service).
f. Etc.…

To conclude class discussion, instructors may present "What Happened for Real".

What Happened for Real

Decision

On June 8th 2015 Domino's officially entered the Portuguese market **without disclosing** a delivery fee and **without making the promise** to deliver within 30 minutes. The cost of delivery was to be diluted in the price of Pizzas.

Reasoning

When Domino's entered the Portuguese market, managers considered applying the "30 minutes or delivery is free" concept. It would be a new way of handling Pizza delivery in Portugal, and could be seen as innovative there as it was back in the 1980's in the US. However, the brand's master franchisee encountered a different market.

Its direct competitors did not disclose a delivery fee. Therefore, coming to a mature market as a late entrant and explicitly charging consumers with a delivery fee – a concept consumers were not used to and would feel negatively about – would deter consumers from ordering Domino's and preferring its competition (Telepizza, Pizza Hut) instead. This behavior could be considered irrational, because consumers were unknowingly paying an undisclosed delivery fee in competitors' offers either way.

The first decision managers arrived at was that Domino's would not disclose a delivery fee, as it would deter consumers from ordering Domino's. Therefore, as did its direct competition, Domino's announced the following: "Delivery is always free and expected to take no longer than 30 minutes". Telepizza, Pizza Hut and Domino's communicated the estimated delivery time of 20 to 30 minutes at different levels of "shyness", given the fact that it was not rare for delays to occur, e.g. because of accidents or robbery.

The problem that appeared next was, if Domino's disclosed the fee and made the "30 minutes" promise, what it would offer if it did not fulfill the promise, eventually deciding on not making that promise, because:

1) Domino's' staff did not have enough experience to fulfil that promise consistently (yet);
2) Domino's' did not want to explicitly give customers reasons to complain (especially on social media platforms);
3) The Portuguese consumer was not mature enough to understand the "30 minutes or delivery is free" promotion;
4) Customers could potentially "hunt" this promotion;

5) The "30 minutes or delivery is free" concept could be applied in the US, since there delivery fee was expected to be disclosed and charged. If the "30 minutes" promise was not delivered, there would be no problem in defining compensation, as delivery would simply be for free (this was easy to offer in the US; in Portugal it was not, because the customer already expected delivery to be free);
6) Of fiscal impossibility. In Portugal, the receipt entered the fiscal system at the moment the order was made (total price on receipt would include the order and the delivery fee). If the driver would arrive after the 30 minutes and the standard Domino's strategy would be applied, he/she would have to give the fee back, which, from a fiscal point of view, the customer already paid when the order was made. However, there was no possibility to "publish" a new receipt regarding the same order, making the "30 minutes or delivery is free" promotion impossible from a fiscal perspective[xxvi].

[xxvi] Information in this chapter is based on the first interview with Francis Hill.

METHODOLOGY

Choosing the Dilemma

News articles and the author's personal brand preferences were the starting point to choose three different alternatives for the dissertation's topic: Domino's (market entry in Portugal), Super Bock ("*Leva a amizade a sério*" – "Take friendships seriously" campaign), and Vista Alegre (2009 Turnaround). Messages via LinkedIn were sent to the potential heroes of the case, which seemed to be involved in the decision making process of the proposed dilemmas. Francis Hill, COO and CBDO at Domino's' master franchisee in Portugal, was the only one that replied to the author's contact.

The initial proposal for the dilemma was centered on Domino's' store location strategy, including the one of the first store. However, after the first interview with Hill, it became clear that the managerial decisions regarding this topic were not suitable for a case study, as there was no 'real' dilemma: the location of the first store was clear.

In that same interview Hill proposed the dilemma this case is based on. After discussing it with his supervisor, the author decided to write about the dilemma concerning Domino's' price disclosure strategy regarding the delivery fee.

Types of Research & Reasoning behind it

Secondary research in the form of online news article was conducted to find the dilemma and have a basic understanding of the Pizza market.

The author also did primary research, conducting a consumer survey created by him, and two interviews with Francis Hill.

Consumer Survey

The consumer survey was developed in order to get a grasp of the Portuguese consumers' behavior and perceptions towards the brands and the dilemma. Qualtrics was the chosen software to perform this survey, which was conducted by the author in an academic environment. It was made available to be answered for approximately two weeks in the beginning of April 2016 and was distributed via groups on Facebook and individual messages.

Although the pool of 136 respondents was not as heterogeneous as desired, the results can still be taken into consideration, because (older) teenagers and younger adults tend to be the largest group of consumers of Pizza. Young, Clark and McIntyre (2006) even explored their research regarding consumer perceptions on e-commerce in a restaurant setting "*within the context of a university setting since Pizza is a popular food choice among college students*".

Consequently, results are still worth being taken into consideration for this case study's purpose. The survey also had a control question. Out of the 136 respondents, four failed it.

The survey's results were analyzed in a simple, direct manner, i.e. apart from Qualtrics, no other software (e.g. SPSS, Excel) was used to conduct statistical analysis. The survey's goal was to have numbers that could give the case more consistency and class discussion topics. Data and information were therefore kept simple and straightforward on purpose.

Interviews

The first interview with Francis Hill (transcript can be found in Appendix 1) helped the author define his course of action and dilemma. Furthermore, information that could hardly be found on the Internet or other exterior sources was discussed and eventually included in the case's final version.

Afterwards, the second interview with Hill (transcript can be found in Appendix 2) enabled the author to get more detailed information about two key components of the case: Domino's' decision making supporting its market entry in Portugal and the process surrounding the case's main dilemma. The content of the second interview complemented the one of the first, and information from both was included in the case.

DISCUSSION

The objective of this dissertation is to present undergraduate and graduate students a real life marketing problem, based on Domino's' dilemma regarding its price disclosure strategy of the delivery fee, when entering the Portuguese QSP segment.

With that in mind, the author defined his research on an outside-in perspective: starting with market characteristics and then focusing on Domino's and its situation.

To construct a theoretical basis, the author read marketing and economics literature that studied three main areas: (1) late entrant in a mature market, (2) standardization vs. adaptation in global marketing strategies, and (3) price disclosure focused on delivery fees. Insights from those were included in the case study and in the suggested class discussion plan.

This case is recommended to be used as a teaching aid for instructors in courses/seminars related to the topics presented above, such as Marketing 101, International Marketing, Global Marketing, Price Management and Decision Making.

One limitation of this dissertation is the fact that the pool of respondents of the author's consumer survey was not as heterogeneous as desired. Additionally, the case does not present data for the analysis of suppliers' bargaining power, which leaves the analysis with Porter's 5 Forces model slightly incomplete.

For future research on consumer behavior and perceptions regarding Pizza, a larger and more heterogeneous pool of respondents would be desired. In the specific case of Portugal, other areas of the country (respondents of this dissertation's survey were mainly from the Lisbon area), and other monetary social classes should be included (which could influence the reported willingness to pay). In a broader context, the same survey structure could be used to study other types of products that have higher unit prices and other characteristics, e.g. some being bought less frequently, such as computers. A more horizon-spreading method of survey distribution would also be recommended, by for example using customer e-mail data bases or including the survey as part of brand campaigns/games/apps.

The main conclusion to be taken from this case study is that for a late entrant in a highly competitive market, a balance of customer- and competitor-based pricing may be recommended for market entry, to enable brand growth. After establishing a more steady position, a brand may then experience other methods of conducting business, leveraging the status it worked for.

APPENDICES

Appendix 1: Transcript of the first interview with Francis Hill

Interviewer: Simão Praxedes, case study's author
Interviewee: Francis Hill, COO and CBDO at Domino's' master franchisee in Portugal
Date: March 14th 2016
Location: Domino's' first store in Portugal (Lisbon)

The interview was conducted in a semi-structured way, where the interviewer had a defined structure and sequence of questions, while the interviewee was given *room* to develop his answers accordingly.

<u>Topic 1: The Portuguese QSP segment</u>
Question 1: What is the current status of the market?

The market is not yet saturated, but already mature.

Question 2: Who does Domino's consider to be its direct competition?

Telepizza and Pizza Hut for sure. Domino's is the new kid on the block.

Question 3: Do you consider fast-food restaurants, individual one-shop restaurants and restaurants that serve any kind of food also as Domino's' competition?

Yes, certainly. However, we are mainly focused on Telepizza and Pizza Hut.

<u>Topic 2: The basis of Domino's' marketing strategy</u>
Question 4: What are the services offered by Domino's?

Domino's offers two services: delivery and at the store. At the store we have take-away as well as carry out services.

Question 5: How do you characterize Domino's' target? Who is your target?

We have a broad target, between the ages of 16 and 55, gender is indifferent, someone cosmopolitan that consumes other Pizza brands (Telepizza and Pizza Hut) and enjoys several moments of sharing and joy (e.g. movies, football games).

Question 6: How does Domino's position itself in the market?

We focus on delivery, as a proximity and joy brand, just like our slogan: "The Pizza of the neighborhood" ("A Pizza cá do bairro" in Portuguese).

Question 7: What is Domino's' desired factor of differentiation?

Quality.

Topic 3: Standardization vs. adaptation

Question 8: Did you, Domino's' master franchisee, adopt standard strategic components of Domino's when entering Portugal? If yes, which ones?

Yes. Domino's in Portugal is the first one ever outside of the US to use the exact replica of Domino's American website.

Question 9: Did you, Domino's' master franchisee, adapt standard strategic components of Domino's to the Portuguese market? If yes, which ones?

Yes, actually several:

- The layout and design of the stores: we wanted and have stores with a more Portuguese touch and feel, with a pieces of Portuguese culture, like for example the floor of the stores is designed with a pattern of traditional blue tiles, instead of the usual Domino's floor design;
- In Portugal we do not make the delivery in 30 minutes promise. Why? To start off, we do not have enough experience yet to fulfill it on a consistent basis. Secondly, we do not want to give our customers explicit reasons to complain (you will find more complaints about delivery times on Domino's' Facebook page than on Telepizza's and Pizza Hut's). Finally, it is impossible from a fiscal point of view for us to offer an immediate compensation in case delivery took more than 30 minutes;
- In Portugal we do not disclose the delivery fee. The cost of delivery for the customer is diluted in the prices of Pizzas. In the US Domino's charges around $3 for the fee.

Topic 4: Location

Question 10: What are the criteria Domino's takes into consideration when defining the locations of stores?

From a retail point of view on the business, one main goal is to increase the visibility of the brand. The store locations are a key tool for us to achieve that. Therefore we take the following factors into consideration:

- The visibility of the store and space itself: We want to be on the main streets and avenues of each city area;
- The area needs to have a high flow of people;
- Central location;
- We need to be where our direct competitors (Telepizza, Pizza Hut) are. We do not have to be directly next to them or exactly on the other side of the road, but we do need to be

in their proximity. If competitors have a store in city area A, we need to be in city area A. If competitors also have a store in city area B, we need to be in city area B as well;

- Number and location of direct competitors' stores;
- An opportunity has to exist, i.e. sometimes we already know which location we want and have to wait for an opportunity, e.g. a space is for sale;
- New stores have to be close to the respective logistic center;
- Accessibility;
- Number of residences;
- The "Golden Mile" rule: a consumer will only consider leaving his/her house by foot to go to a store if it is at a maximum of 5 minute walking distance. If it he/she knows it will take more than that, it is not worth it to leave the house;
- The presence and number of schools;
- The presence and number of companies/offices.

Question 11: Which were the criteria Domino's took into special consideration regarding its first store in Portugal?

All the factors mentioned as answer to the previous question plus an additional objective: the one of logistical support. The first store, the flagship store, has to work as the logistic center that will support the following stores in Lisbon. The first store and all other ones will have an area for customers to eat and for the open kitchen ("Pizza Theater" – the customer can see the Pizza being made). What makes this first store special is that attached to this area for customers there needs to be enough space for a sort of backstage mini-warehouse and kitchen, where the Pizza dough is made and all ingredients are stored, the ones for this store as well as all the others it supports. The logistic center needs to have the capacity to support 15 stores in its region. Worth mentioning is the fact that to achieve this logistical objective, the "accessibility" factor is more important than the one of "visibility" (compared to when visibility is more important than accessibility when it comes to the goal of visibility from the business' retail point of view).

Question 12: Why this city area of Lisbon for Domino's' first store in Portugal?

We did not apply an exact science, there was no basic formula. It was based on a feeling and supported by certain quantitative and qualitative facts:

- Initially, the Domino's brand was not known in Portugal. We (its master franchisee) want Domino's to be a brand known in the whole country, and for that we need to enter the market through its capital (Lisbon), the most cosmopolitan area in Portugal with the highest number of residences;

- The penetration rates in the market depend a lot on volume, and this city area is known to be one that allows new players and brands in Portugal to have a good starting point:
  - Example 1: Telepizza's first store in Portugal was opened in 1994 in this exact same city area. The brand has been growing ever since [143 in Portugal so far] and it exists for over 20 years. Therefore, it must be doing something right.
  - Example 2: Papa John's first store in Portugal was also opened in this city area. However, this brand has not been having much success.
- Due to this city area's population density and social stratification: Domino's is a brand known worldwide, but not yet in Portugal. Hence, the more educated population is more informed and more on the lookout for new offers, being able to identify and understand them more quickly;
- This city area is the most recent residential area of Lisbon's center, with an appropriate age group and level of education that enables brand awareness to increase, as this area has a more informed population;
- The hypermarket in this area is most probably the one with the second highest flow of customers in the center of Lisbon. Therefore, it may be a good indicator for the potential success of a new store;
- This city area is one of the busiest ones in the center of Lisbon;
- The size in square meters of this first location was perfect to achieve not only the retail objective of visibility, but also the one of logistical support.

Question 13: Was it difficult to reach a consensus regarding where to open the first store?

No. This city area and exact location were without a doubt our first choice. There was no dilemma.

Question 14: If you had to choose any existing Domino's store in Lisbon as the best second alternative for Domino's' first store (i.e. a location that would also have been taken into consideration while deciding where to open the first store), which would it be? What other location would fulfill all the requisites needed to achieve the goals of brand visibility and logistic support?

The one in city area B, because it is in a renewal phase.

Question 15: Did Domino's consider opening stores in shopping malls?

Never, given that it would make it difficult (if not impossible) for delivery, which is key for the brand. The problem is not the time spent on the horizontal trip (the scooter on the road); the problem is the time spent vertically (having to descend from the restaurant area of the mall, which is rarely on the ground floor, to the road; and then from the road to the customer's floor). Nevertheless, the alternative of opening stores in malls in the future is not entirely ruled out.

Extras – Additional information mentioned along the interview:

- Domino's is having success in Portugal;
- The weekends are the times of highest demand, at the store and for delivery;
- In the last two years, in the post-crisis phase, there was a proliferation of "neighborhood" stores and restaurants in this market;
- Domino's' 7 stores so far are all corporate, which means the master franchisee owns them all. Only after the 20th corporate store can it start sub-franchising;
- Consumption at the store is important;
- Domino's has an overall national marketing plan, but each store has its own local one. Thus, each store analyses its area and can conduct exclusive promotional campaigns;
- More than 50% of all Domino's' orders are made online. The rest are made per telephone or at the store;
- In the case of Pizza Hut, online orders probably do not exceed 20% of all orders;
- The by Domino's internally projected delivery time is 22 minutes. We [Hill and the master franchisee] would say "We deliver in 30 minutes" for us to have an 8 minute margin.

Appendix 2: Transcript of the second interview with Francis Hill

Interviewer: Simão Praxedes, case study's author

Interviewee: Francis Hill, COO and CBDO at Domino's' master franchisee in Portugal

Date: May 3rd 2016

Location: Domino's' first store in Portugal (Lisbon)

Question 1: Why did Domino's decide to enter the Portuguese market?

The main reason for it was the fact that Domino's believed the market and its consumers were bored with the same old offers of Telepizza and Pizza Hut. These two had this market for themselves for more than 20 years and the offers did not change much over the years, giving Domino's an opportunity to bring something new and fresh to the table. Domino's would focus on developing a strategy that was very similar to Telepizza's, a player that had no direct competition before Domino's showed up.

Question 2: What was/were the main objective(s) of Domino's and its master franchisee upon entering the Portuguese market?

There were three main goals: steadily growing the brand, achieving operational results and keeping on track with the store expansion plan.

We know that perceptions take a long time to be formed and/or changed, being therefore aware that brand growth through increases in its awareness and satisfaction was to be seen as a steady medium- to long-term goal. For that to happen, we need to ensure brand and performance consistency and cohesiveness by achieving the operational goals we set, while spreading the brand across the country opening up more and more stores.

A strong investment was needed at the start – and still is – to support this market entry. Taking that investment into consideration, we estimate that our overall break-even point will be achieved two years after entering Portugal in the worst case scenario.

Question 3: What options did Domino's' master franchisee in Portugal consider regarding the standardization or adaptation of the US strategy of disclosing a delivery fee and applying the "delivery in 30 minutes promise or delivery is free" concept?

We did consider and still are considering disclosing the delivery fee. In fact, Telepizza, Pizza Hut and Domino's all charge a delivery fee. What happens is that none of them disclose the fee. However, if you compare the prices at the store and the prices online for delivery, you notice a price difference: prices online are higher (discounts are different).

If we did disclose the delivery fee, the price of the Pizzas would be exactly the same at the physical store and online. Still, "fee" in Portuguese ("taxa", in English "tax") always has had a bad connotation. As soon as people would read the word "taxa" (fee) and think they need to pay that, we believe they would lose interest in ordering Pizza immediately.

Nevertheless, we considered and are considering several alternatives to compensate customers in case we disclosed the fee and could not keep the made "delivery in 30 minutes" promise.

As we believe an unhappy customer would probably not order from us again so soon, we could try to win them back right on the spot by returning the paid fee or offering the whole order (fee and Pizzas, etc.) immediately.

Another option to compensate unsatisfied customers immediately would be to take the initiative and responsibility even before the order arrived, in order to try our best to achieve a wow! factor in customer service. For example, if a store operator would notice that an order would only be delivered 40 minutes after it had been placed, he/she would call the customer and say the following: "We are processing your order and unfortunately it will not arrive within the 30 minutes we promised. We apologize. We therefore would like to offer you a free 1,5 liter drink at your choice. Which one would you prefer?" The compensation would vary according to the size of the delay, and for that managers at the office would define a "table" which store operators would use as guidance in these cases.

Finally, there is the possibility to offer compensation for the customer's potential next order, in the form of discount coupons, free delivery, free Pizza, free desserts, drinks or snacks.

Extras – Additional information mentioned along the interview:

- Around 75% of Domino's' revenues in Portugal are made within 3 hours each day;
- Estimation for the total market size of home food delivery solely including Domino's, Telepizza and Pizza Hut in Portugal: 140 to 150 million €;
- Estimation for the total market size of home food delivery solely including Domino's, Telepizza and Pizza Hut in Lisbon's metropolitan area: 70 to 80 million €;
- Domino's had already been present in the Portuguese market under a different master franchisee, for two years, around approximately 1998 and 2000. They had up to 5 stores in Lisbon and applied a version of the standard US price disclosure strategy: "We disclose the delivery fee and promise to deliver within 30 minutes. If we fail to keep this promise, the whole order is free." I (Hill) believe that this was one of the deciding

factors why this master franchisee was not successful and had to eventually quit the market;

- One example proving perceptions take time to be formed and changed in consumers' minds: Domino's has currently the lowest prices among all three players. However, consumers still perceive Domino's to be more expensive than Telepizza. Telepizza has built such a reputation that its brand is almost perceived as synonym for "good cheap Pizza". I (Hill) know that it will take time for this perception to change.

Appendix 3: Structure and content of survey conducted by author

________________________ [INTRO] ________________________

Dear respondent, thank you for taking the time to answer my survey. It is an important component of my Master's Thesis and will ask you about your experience with Pizza as a consumer. All data remains confidential and your answers anonymous, as I am only interested in overall results, not individual responses.

\- Simão Praxedes

P.S.:
You can change the language in between English and Portuguese during the survey, any time you want, and it will not change your answers.
Pode mudar o idioma do questionário de inglês para português (e vice-versa) a qualquer altura do mesmo, e não lhe altera as suas respostas.

If you need to go to a previously answered question, click only the "back" button present in the survey ("<<"). Do not click on your browser's "back" button.
Se precisar de voltar a uma pergunta anteriormente respondida, use somente o botão "<<" presente no questionário. Não use o botão "undo" do seu browser.

____________________ [START OF SURVEY] ____________________

1) How frequently do you eat Pizza on average? *(choose only 1 option)*
   - o 2 or more times a week
   - o Once a week
   - o Once every two weeks
   - o Once a month
   - o Once every 6 months
   - o Rarely
   - o Never, I do not eat/like Pizza → **(This person goes immediately to 'Demographics')**

_______________________ [PAGE BREAK] _______________________

2) Choose your **<u>Top 2</u>** reasons for eating Pizza *(choose 2 options)*
   - ☐ My love for Pizza
   - ☐ Financial reasons (affordability)
   - ☐ Convenience (e.g. because of being busy or lazy)
   - ☐ Social reasons (e.g. friend's birthday dinner)
   - ☐ Pizza is a healthy dish
   - ☐ Other (*open text*)

3) Choose the **<u>Top 2</u>** options you use most often to eat Pizza *(choose 2 options)*
   - ☐ Delivery services

- ☐ Take-away services
- ☐ Eat at the Pizza store using carry-out services (without table service)
- ☐ Eat frozen Pizza (bought in the supermarket)
- ☐ Eat at a dine-in Pizza restaurant (with table service)
- ☐ Other (*open text*)

4) Rank the following criteria you take into consideration when choosing where to eat Pizza (1 = most important) *(rank options)*
   - _ Price (Affordability)
   - _ Closeness to restaurant/store
   - _ Brand loyalty/preference
   - _ Promotional campaigns (e.g. 2 Pizzas for the price of 1)
   - _ Ingredient and dough variety
   - _ Other (*open text*)

________________________________ [PAGE BREAK] ______________________________

5) If you do not eat Pizza at the store, how do you usually order it in most cases? *(choose only 1 option)*
   - o Via telephone
   - o On-line via website
   - o Via an app
   - o At the store directly and eat somewhere else
   - o Other method: *(open text)*

________________________________ [PAGE BREAK] ______________________________

6) How do you feel regarding the following sentence: "I am open to try out new Pizza" *(choose only 1 option)*
   - o Strongly agree
   - o Agree
   - o Neutral
   - o Disagree
   - o Strongly disagree

7) What are the **Top 2** reasons that would make you want to try out a new Pizza brand/restaurant? *(choose 2 options) (this question only appears if respondent gave "Strongly agree", "Agree" or "Neutral" as an answer to question 6)*
   - ☐ Curiosity
   - ☐ I am unsatisfied with existing options
   - ☐ I am bored with existing options
   - ☐ It is cheaper than the existing options
   - ☐ It is more convenient than existing options
   - ☐ I have heard good reviews about it (e.g. from friends, restaurant apps)
   - ☐ Other reason: *(open text)*

8) What are the **Top 2** reasons that would make you not want to try out a new Pizza brand/restaurant? *(choose 2 options) (this question only appears if respondent gave "Strongly disagree" or "Disagree" as an answer to question 6)*
    - ☐ Lack of curiosity
    - ☐ I am satisfied with existing options
    - ☐ It is more expensive than the existing options
    - ☐ It is less convenient than existing options
    - ☐ I have heard bad reviews about it (e.g. from friends, restaurant apps)
    - ☐ Other reason: *(open text)*

______________________________ [PAGE BREAK] ______________________________

9) What are your **Top 2** direct alternatives to Pizza? *(choose 2 options)*
    - ☐ Other Italian dishes (e.g. pasta)
    - ☐ Fast-food (e.g. McDonald's, KFC, Burger King,…)
    - ☐ Sushi
    - ☐ Full-service restaurants (all kinds of food)
    - ☐ Other

______________________________ [PAGE BREAK] ______________________________

10) Select every Pizza brand you know or have heard of (*can choose all options)*
    - ☐ Pizza Hut
    - ☐ Telepizza
    - ☐ Domino's Pizza
    - ☐ None of the above

11) From which brand have you eaten at least one Pizza? *(can choose all options) (only the options chosen in answer to question 10 will appear to the respondent as options in this question)*
    - ☐ Telepizza
    - ☐ Domino's Pizza
    - ☐ Pizza Hut
    - ☐ None of the above

12) Rank your brand preference (1 = most preferred brand) *(rank options) (this question only appears if all 3 brands were chosen in answer to question 11)*
    - _ Domino's Pizza
    - _ Pizza Hut
    - _ Telepizza

13) Which brand do you prefer? *(choose only 1 option) (this question only appears if only 2 of the 3 brands were chosen in answer to question 11; there are 6 possible pair-wise combinations)*
    - o "Pizza Brand A"
    - o "Pizza Brand B"

______________________________ [PAGE BREAK] ______________________________

14) Rank your level of satisfaction with each brand regarding every attribute *(rank options)*
    (1 = most satisfied with; 3 = least satisfied with) (You can only write "1", "2" and "3" once per line)
    Example:
    If you think Domino's Pizza has the best prices and promotions, you write "1" where "Domino's Pizza" and "Prices and promotions" cross.
    If you think Telepizza has the worst prices and promotions, you write "3" where "Telepizza" and "Prices and promotions" cross.
    (this question only appears if all 3 brands were chosen in answer to question 11; respondents have to fill in each box with either "1", "2" or "3")
    a. Brands (1 column per brand): Domino's Pizza, Telepizza, Pizza Hut *(3 columns)*
    b. Attributes (1 line per attribute) *(11 lines)*:
        i. Prices and promotions
        ii. Dough quality
        iii. Dough variety
        iv. Ingredient quality
        v. Ingredient variety
        vi. Write 1, 2, 3 from left to right *(control question)*
        vii. Delivery service (quality)
        viii. Delivery service (quickness)
        ix. Store service
        x. Store location
        xi. Number of stores

15) From your experience, which brand does it better in each of the following attributes? *(this question only appears if only 2 of the 3 brands were chosen in answer to question 11; there are 6 possible pair-wise combinations) (respondents can only choose 1 of the 3 'column' options for each attribute)*
    a. Columns: "Pizza Brand A", "Both are equal", "Pizza Brand B" *(3 columns)*
    b. Attributes (1 line per attribute) *(11 lines)*:
        i. Prices and promotions
        ii. Dough quality
        iii. Dough variety
        iv. Ingredient quality
        v. Ingredient variety
        vi. Choose "Both are equal" on this line *(control question)*
        vii. Delivery service (quality)
        viii. Delivery service (quickness)
        ix. Store service
        x. Store location
        xi. Number of stores

______________________________ [PAGE BREAK] ______________________________

16) Do you know any other Pizza brand(s)? *(choose only 1 option)*
    - o Yes
    - o No

17) Which one(s)? *(this question only appears if "Yes" was the answer to question 16)*
    - _ *(open text)*

______________________________ [PAGE BREAK] ______________________________

You are almost finished!

<u>Important information:</u>

In some countries, Pizza companies charge an additional delivery fee. Under this scenario, assume that the price of the Pizza you pay to eat <u>outside</u> of the restaurant would be the same as the one charged in case you ate it <u>at</u> the restaurant.

______________________________ [PAGE BREAK] ______________________________

18) How much would you be willing to pay to have your Pizza delivered?
    - _ Delivery fee in € *(Scale: 0-10€, with two decimals)*

19) What would you do if your favorite Pizza company starts charging a delivery fee? *(choose only 1 option)*
    - o Order from a competing company that does not charge a delivery fee
    - o I stop considering Pizza as an option when I need delivery services
    - o Eat at the store of my favorite Pizza company
    - o Eat something else at the shopping mall
    - o Make my own food
    - o Other *(open text)*

______________________________ [PAGE BREAK] ______________________________

<u>Important information:</u>

Now imagine that a Pizza company would charge a **<u>fixed delivery fee and promise</u>** to deliver your order within 30 minutes.

20) With this in mind, how much would you be willing to pay to have your Pizza delivered?
    - _ Delivery fee in € *(Scale: 0-10€, with two decimals)*

Imagine that initially **<u>you paid the fixed delivery fee</u>**, but the 30-minute-promise **<u>is not kept</u>**. Assume that you could not get any immediate compensation on your current order.

21) What would you expect as compensation instead? *(choose only 1 option)*
    - o Free delivery in the next order
    - o A discount coupon for the next order
    - o Free drinks/entrees/desserts in the next order
    - o Nothing. I make a complaint and never order from this Pizza company again.
    - o Other (*open text*)

________________________________ [PAGE BREAK] ______________________________

Imagine the following example:

For your dinner you order one Pizza of your preferred size and you want it to be delivered to, for example, your home.

In scenario A, the regular price of the Pizza is 10€ and delivery is free.
In scenario B, the regular price of the Pizza (<u>the same one</u> as in scenario A) is 7€ and you also have to pay a fixed delivery fee of 3€.

22) In which scenario would you be more willing to pay the 10€? *(choose only 1 option)*
    - o A
    - o B

________________________________ [PAGE BREAK] ______________________________

23) Would you like to make any additional comments in line with this survey? *(open text; optional)*

________________________________ [PAGE BREAK] ______________________________

Just a few demographic questions and you are done!

24) Gender *(choose only 1 option)*
    - o Male
    - o Female
    - o Other *(open text)*

25) Age range *(choose only 1 option)*
    - o under 16 years
    - o 16 - 18 years
    - o 19 - 25 years
    - o 26 - 40 years
    - o 41 - 55 years
    - o over 55 years

26) Occupation *(choose only 1 option)*
   - o School Pupil (e.g. at High School)
   - o University Student (e.g. Bachelor's, Master's, PhD,…)
   - o Working Student/Pupil
   - o Employed
   - o Unemployed
   - o Retired

27) Nationality *(can choose as many nationalities as needed)*
   - ☐ Portuguese
   - ☐ Other *(open text)*

28) Country of residence *(choose only 1 option)*
   - o Portugal
   - o Other *(open text)*

____________________________ [END OF SURVEY] ____________________________

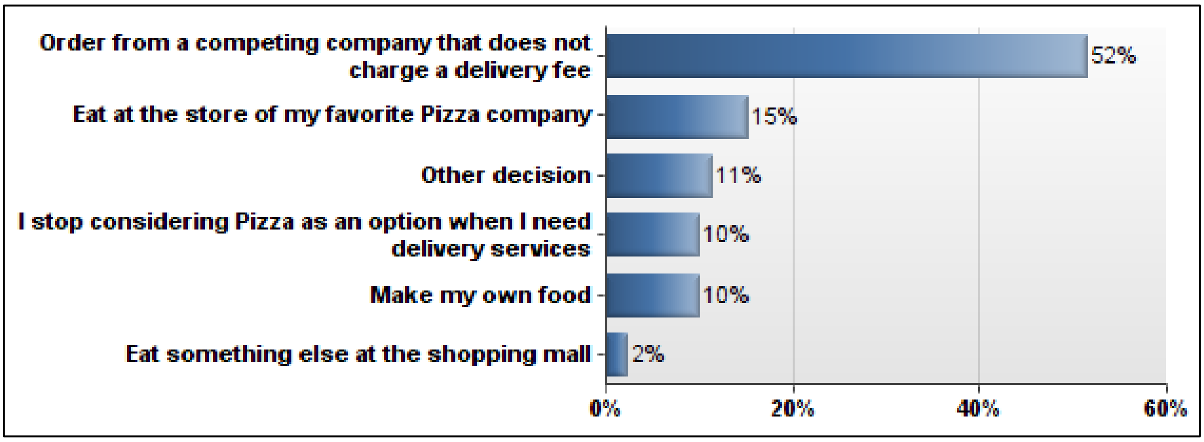
Additional information:
This survey was also translated into Portuguese, which means it could have been answered in either language (ENG or PT). The content and sequence of the questions do not change between languages. Therefore, the language chosen while answering the survey has no influence on final results.

Appendix 4: Willingness to pay for delivery fee

Average willingness to pay a delivery fee **without knowing** about the delivery in 30 minutes promise	2.44€
Average willingness to pay a delivery fee **when knowing** about the delivery in 30 minutes promise	2.55€

Source: results from survey conducted by the author in April 2016
Question answered solely by respondents that consumed Pizza.

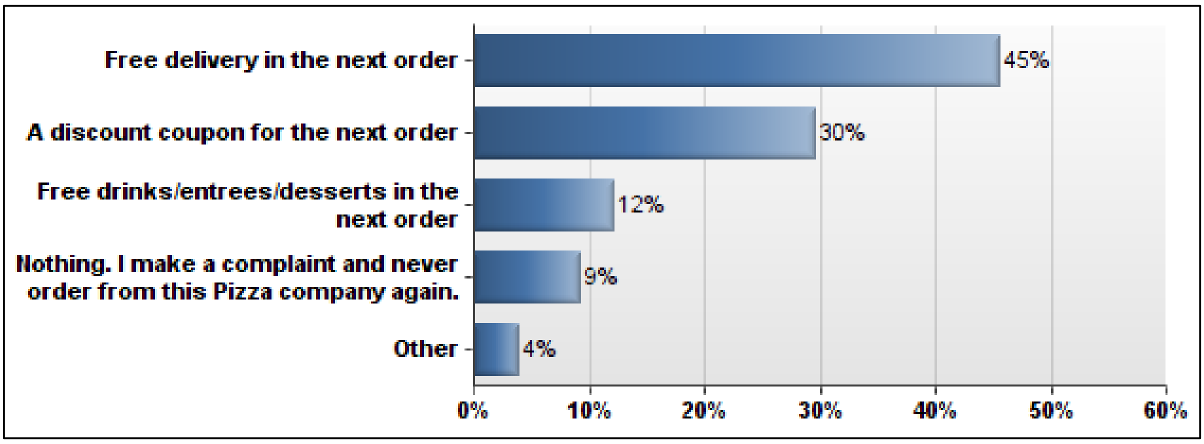
Appendix 5: "What would you do if your favorite Pizza company starts charging a delivery fee?"



Source: results from survey conducted by the author in April 2016
In % of only those respondents that consumed Pizza.

Types of answers to "Other decisions":
- "I would order my favorite Pizza anyway."
- "It depends on the amount charged by the fee."
- "I would use take-away services from my favorite Pizza brand instead of delivery."

Appendix 6: "What would you expect as compensation if the 30 minutes promise is not kept?"



Source: results from survey conducted by the author in April 2016
In % of only those respondents that consumed Pizza.

Appendix 7: "In which scenario would you be more willing to pay the 10€?"

Scenario A: Order costs 10€ and delivery is free	73%
Scenario B: Order costs 10€ (Pizza costs 7€ + delivery fee of 3€)	27%

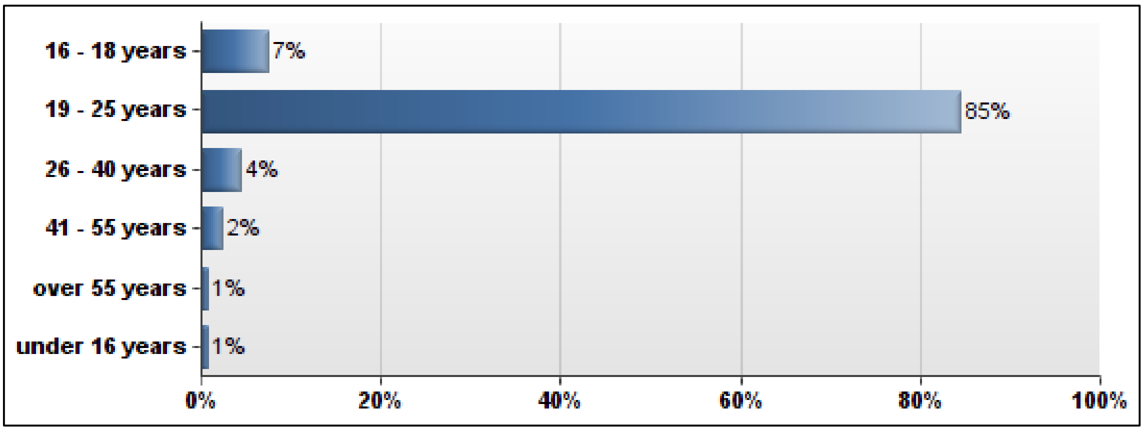
Source: results from survey conducted by the author in April 2016
Question answered solely by respondents that consumed Pizza.

Appendix 8: Demographic data of author's consumer survey's respondents – Gender

Male	40%
Female	60%

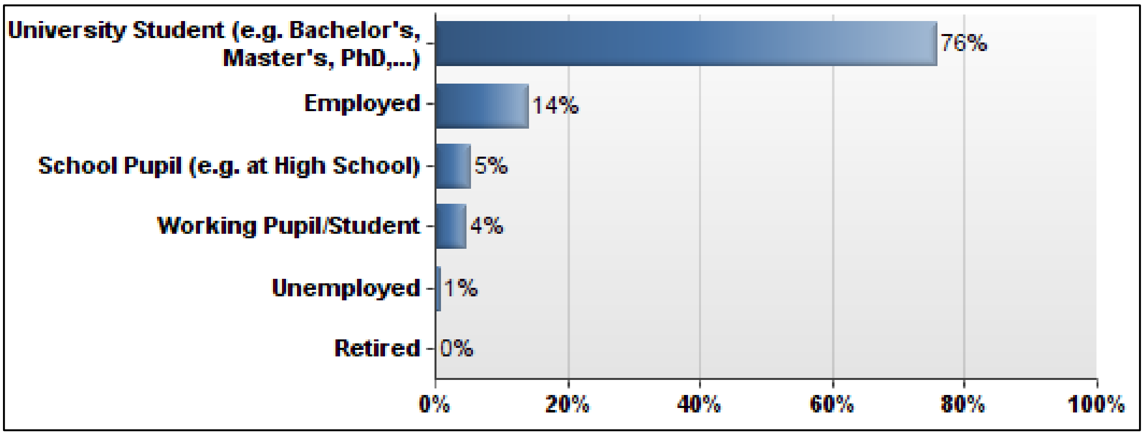
Source: results from survey conducted by the author in April 2016
In % of all respondents, including those that did not consume Pizza.

Appendix 9: Demographic data of author's consumer survey's respondents – Age



Source: results from survey conducted by the author in April 2016
In % of all respondents, including those that did not consume Pizza.

Appendix 10: Demographic data of author's consumer survey's respondents – Occupation



Source: results from survey conducted by the author in April 2016
In % of all respondents, including those that did not consume Pizza.

Appendix 11: Demographic data of author's consumer survey's respondents – Nationality

Portuguese	100%
Other	0%

Source: results from survey conducted by the author in April 2016
In % of all respondents, including those that did not consume Pizza.

Appendix 12: Demographic data of author's consumer survey's respondents – Country of residence

Portugal	100%
Other	0%

Source: results from survey conducted by the author in April 2016
In % of all respondents, including those that did not consume Pizza.

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