

CHAPTER IV

CASE STUDY OF THE PIZZA PUBLIC CO., LTD.

4.1 The Analysis of The Pizza Public Co., Ltd., Franchisee of Pizza Hut

4.1.1 Background of Pizza Hut and The Pizza Public Co., Ltd.

The Pizza Public Company Limited operates pizza business as franchisee of Pizza Hut Inc. from U.S.A. Main product of Pizza Hut is Pizza in varies topping. The Pizza PublicCo., Ltd was established on 28 August 1980 named "The Pizza (Thai) Co., Ltd." by the joint venture between Minor Group Co., Ltd. and Rama Pattana Co., Ltd. The Pizza has right to operate PIZZA HUT under licensed of Pizza Hut Inc., U.S.A. that is a group company of Pepsi Co International Co., Ltd. First outlet was opened in December 1980 at Pattaya famous beach of Thailand to serve both foreign and local tourist After opened first outlet at Pattaya, the Pizza expands Pizza Hut continuously average one outlet per year as following sample:

February	1982	Second outlet on Suriwongse Road
December	1983	Third outlet at Siam Square
June	1984	Fourth outlet on Sukhumvit 19 Rd.
February	1985	Fifth outlet at Central Ladprao, Thailand's biggest shopping mall(in1985)
January	1986	Sixth outlet at Jusco Rachadapisake
May	1987	Seventh outlet at Kasorn Rd.,Rachaprasong Junction
July	1987	Eighth outlet at Maboonkrong Center (M.B.K)

In 1984 Minor group purchased all shares from Rama Group and held 100% shareholder of The Pizza (Thai) Co., Ltd. In 1991, The Pizza (Thai) Co., Ltd. was introduced into stock market and changed to The Pizza Public Company Limited. Due to the continuous expansion of The Pizza since 1982, nowadays Pizza Hut has 116 outlets nationwide become the second QSR (Quick Service Restaurant) that have highest outlets in Thailand—Table5.1.

Group Company of The Pizza Public Company Limited:

- (1) October 1987 The Pizza Public Co., Ltd. hold total share of Swensen's (Thai) Co., Ltd. Means The Pizza has right to distribute ice-cream under trademark "SWENSEN'S" initial capital 7.7million Baht. The Pizza stated that Swensen's could support their wing to expand their business line.
- (2) March 1990 The Pizza Public Co., Ltd. changed the name of their group company from Pizza Suriwongse Co., Ltd. to Sizzler (Thai) Co., Ltd. increase capital to 5million Baht to operate steak and seafood restaurant as a franchisee of Sizzler Southeast Asia Inc. from U S A. under the named "SIZZLER", franchise contract 20years.
- (3) June 1991 The Pizza established another 2 group companies named Minor Cheese Cc., Ltd. and Minor Dairy Co., Ltd. to produce cheese, ice-cream and dairy product respectively. Both manufactories are located in Park-Chong. Nakorn Rachasima. The Pizza opened their own manufactories strengthen their expansion in food business.
- (4) June 1992 S&P Minor Food Co., Ltd. was established by the joint venture of The Pizza Public Co., Ltd. and S&P Public Co., Ltd. To operate movable and immovable property business. First project is S&P Minor Food Center at Sukhumvit 26. The concept of S&P Minor is establishing food court for their group company which included Pizza Hut, Swensen's Sizzler, S&P, Chicken Treat and Burger's King (in the year 2000)--and rental to external entrepreneurs.

Operation Development:

- June 1988 The Pizza started commissary system to minimize outlet's kitchen area and improve quality control.
- June 1989 Launch Home Delivery addition service to increase sales volume without expanding outlet space. This service becomes very success according traffic problem and express lifestyle in metropolitan area.
- December 1991 opened first "Slice Bar" at Central Chid-Lom distributed "Take Away Pizza".

September 1992

DELCO was introduced into market. DELCO means Pizza outlet that supplies only delivery and take away pizza and some appetizer items. At the beginning 8 Delco Unit was opened. Nowadays, Mr. William E. Heinecke—Chairman & Chief Executive Officer of The Pizza stated that Delivery and Take away sales now exceed "dining-in" sales with the Pizza Hut Delivery motorcycle compete with the venerable tuk-tuk as the prime fixture of everyday life in Bangkok.

4.1.2 Managerial Analysis

The Pizza Public Co., Ltd. is a group company of Minor Group established to operate food business in Thailand as master franchisee of many well-known foreign franchises that consists of Pizza Hut, Swensen's, Dairy Queen, Sizzler, Burger King and Chicken Treat.

The Pizza Public Co., Ltd. and Minor Group Company can be classified by product segment as follows:

Table 4.1: Group Company of The Pizza Public Company Limited

Company	Shareholder(%)	Business Description
The Pizza Public Co., Ltd.	Public Co., Ltd.	operate Pizza Hut
Swensen's (Thai) Co., Ltd.	100%	Ice-cream distributor
		franchisee of Swensen's
Sizzler (Thai) Co., Ltd.	100%	Steak & Sea food restaurant
		franchisee of Sizzler
Minor Service Co., Ltd.	100%	Service & maintenance the
		equipment of group company
		Nowadays it was terminated.
Minor Cheese Co., Ltd.	100%	Supported by B.O.I to produce
		cheese and supply to group co.
Minor Dairy Co., Ltd.	100%	Produce ice-cream and dairy
		product to Swensen's and group co.
S&P Minor Food Co., Ltd.	Joint Venture/50%	Property Business
		i.e. S&P Minor Food Center

Source: The Pizza Public Company Limited

Table 4.2: Sales Volume of Main Product for The Pizza Public Co., Ltd. 1991-3

Product Description	1991		1992		1993		Jan.-March1994	
	Million Baht	%	Million Baht	%	Million Baht	%	Million Baht	%
PIZZA HUT	345.01	73.35	428.31	70.52	532.91	62.56	171.28	59.71
SWENSEN'S	125.33	26.65	156.36	25.75	204.52	24.01	62.7	21.86
SIZZLER	--	--	22.67	3.73	52.77	6.2	21.96	7.66
CHEESE MANU.	--	--	--	--	30.79	3.61	14.99	5.23
ICE-CREAM MANU.	--	--	--	--	29.7	3.49	14.28	4.98
Immovable/Movable Property	--	--	--	--	1.08	0.13	1.62	0.56
Total Sales Value	470.34	100	607.34	100	851.77	100	286.83	100
Increasing/Decreasing Ratio	43.74		29.13		40.25		NA	

Source: The Pizza Public Company Limited

4.1.3 Operating Analysis

During 1997, the market went through rapid transformation and market research was used extensively to keep abreast of consumer reaction to changes in the Thai economy. Two things that became very apparent were that consumers were not stopping their spending on out of the home prepared meals but were reducing their frequency of purchase. Value perception was become a prime motivation in the purchasing decision. According to the research of Rajabhat Institution Suan Dusit--Suan Dusit's Poll—(Table 5.10) shown that people for 83.10% reduced their spending during economics crisis, and the frequency of purchase also reduced for 67.17%. Moreover, value perception was become a major reason that people about 77.7% considered before purchase.

Many competitive companies started to discount heavily of products. This had the effect of driving short-term sales gains, but as they did not have the sustaining power on the consumer, purchase frequency dropped rapidly. This heavy discounting coupled with the Baht floatation quickly eroded any sales profit gains through deterioration of margins. The company's share in 1997 in the QSR (Quick Service Restaurant) market was maintained at an estimated 30%. This was achieved under substantial pressure from competitors through using the market research, assistance from their franchisor and focusing their operations on

achieving their goal of 100% customer satisfaction. At the end of 1997, their customer satisfaction rating reached 90%, up 7% over the previous year.

Through extensive marketing, their operations resisted following competitors in product discounting. Their approach was to reengineer their existing product lines, to provide lower priced items to their customers and therefore minimize margin erosion over the coming year. They were in a position to achieve this by leveraging their manufacturing facilities for cheese and ice cream. Having their own manufacturing has become a very strong competitive advantage for the company. External supplies have also been encouraged to use open book purchasing negotiations. All of these initiatives are aimed at tighter margin control over a longer period. Their development strategy, construction costs and occupancy expenses were also reviewed during the year. Lower rental for many of their existing outlets were obtained. Their management performance measurements were calculated on the basis of customer growth and improved margin performance.

Table 4.3: How people spending money during economics crisis

Operated by: Rajabhat Institution Suan Dusit (Suan Dusit Poll)

Period of Time: 1 August - 9 September 1997

Random Group: Bangkok population 2,163persons (40.25%)

Provincial population 3,211persons (59.75%)

No.	Description	Percentage
1	Spending behavior of people for the past 6 months	
	* Spending Money as usual	16.90%
	* Reducing their spending volume	83.10%
2	Purchasing volume of people for the past 6 month	
	* Constant purchasing volume	32.83%
	* Reducing purchasing volume and frequency	67.17%
3	Major factor that influence purchasing decision making	
	* Value perception	77.70%
	* Pricing	18.69%
	* Duration of product	2.99%
	* Other i.e. Purchasing local product	0.62%

Source: Rajabhat Institution Suan Dusit, Bangkok, Thailand

Pizza Hut finished 1997 operating 47 restaurants, 57 Delco and 3 Express units for a total 107 outlets. In 1998-1999, 9 outlets are opened and these outlets grow the system in the regional areas of Thailand. Currently they are operating more than 21 units outside Metropolitan Bangkok.

Operating Analysis of The Pizza Public Co., Ltd's Group Company

(a) Swensen's

Outlet expansion for 1997 was 11 units. A total of 59 units were in operation at year-end. The 10 units were added in the system in 1998. Currently they are operating 18 units outside Metropolitan Bangkok. Overall revenue growth was 19.4% and Operating Profit 11.6%. Their Market Share grew to 66% of the premium ice-cream market as their Customer Satisfaction rating at year-end of 1997 reached 93%.

(b) Sizzler

Sizzler in 1997 added 3 units to the system giving it a total of 10 units. Only one store is operating outside of Bangkok. Sizzler in currently will continue to build on establishing itself as the leading Western grill restaurant chain in Thailand. Revenue growth in Sizzler was 30%. Operating margin was 19.3% an increased of 3.9%. Customer Satisfaction rating at year-end of 1997 was 85%.

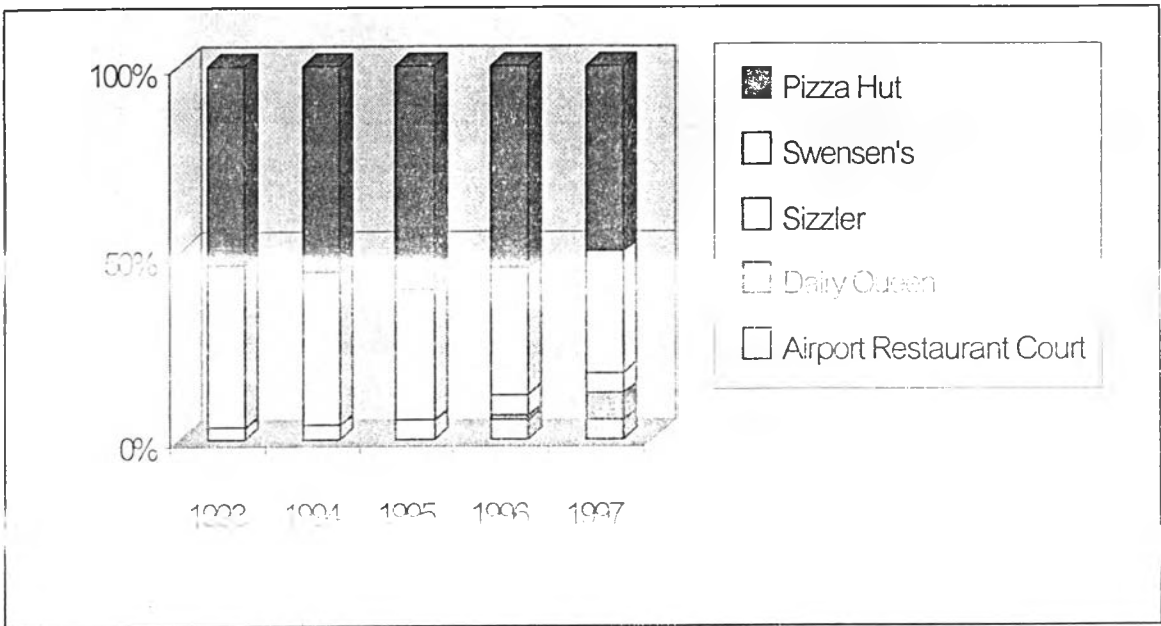
(c) Dairy Queen

Dairy Queen in 1997 opened 19 outlets, and 20 outlets opened in 1998 giving it a total of 46 units by the end of 1998. Revenue grew by 438% in the year and operating margins grew by 436%. The business made an operating profit this year, a good result for a start up operation. Customer Satisfaction rating by year-end of 1997 was 90% and expected to sharply increase in nearly future.

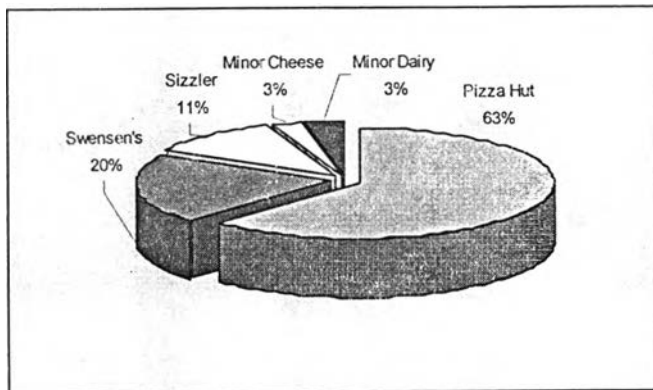
(d) Minor Cheese and Minor Dairy

The manufacturing facility established its competitive advantage to our restaurant outlets. Operating Margin for manufacturing increased by 95.9%.

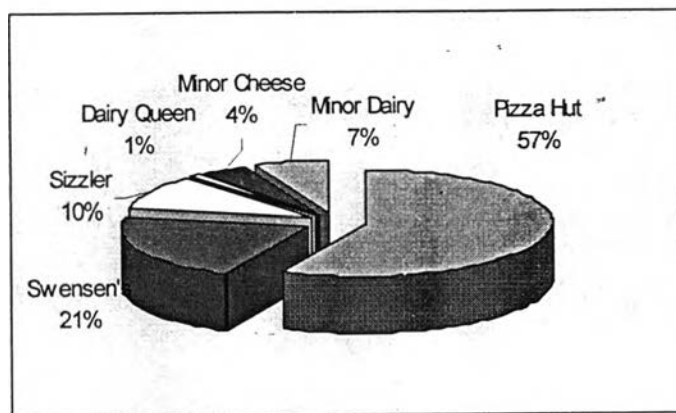
Figure 4.1: Share of Total Operating Profit by Division



Year: 1996



Year: 1997



4.1.4 Financial Analysis

A year earlier The Pizza Public Co., Ltd. the franchisee of Pizza Hut in Thailand, has set the continued expansion and improvement in operating efficiencies of their three core food business as one of their major objectives. The Pizza Company has met and exceeds this goal. Pizza Hut added twelve new outlets to the existing 96 outlets in 1997 and opened nine new outlets in 1998 reached totally 116 outlets of Pizza Hut in present, which strengthened its domination of the Thai pizza market with a 89% market share. Delivery and take away sales now exceed "dining-in" sales with the Pizza Hut delivery motorcycle competing with the venerable tuk-tuk as the prime fixture of everyday life in Bangkok. Record levels of sales and operating profits were also delivered by Swensen's and Sizzler which both continue to dominate their respective markets. The reintroduction of Dairy Queen has been positively received and given the Company a fourth core food business. Targeting a different market segment than Swensen's, Dairy Queen's 26 outlets turned profitable in its first fully year of operations and made up 1.0% of total operating profits. With over 10%, Minor Cheese and Minor Dairy made their most prominent contribution to date. New export markets for cheese and ice cream should further increase the importance of these subsidiaries raise their profile both within and outside the Country.

Table 4.4: The expansion rate and sales volume of Pizza Hut 1993-1998

YEAR	1993	1994	1995	1996	1997	1998
OUTLET	31	46	66	96	107	116
SALES	566	737	1,031	1,489	1,750	1,798

* the value of Sale is 1: 1million Baht

The Company's expansion outside of Metropolitan Bangkok continued with most of last year's new Pizza Hut and Swensen's outlets opened in the new provincial market. New product innovation such as the "Stuffed Crust Pizza" led to dramatic sales increase and further broadened brand recognition. However, other management improvements in operations were mitigated by higher debt servicing costs and the costly effects of the devaluation of the Baht including significantly higher food cost. The Pizza Company took a devaluation charge of Baht 109 million to cover the potential losses in repaying a US\$5.0million loan. All other foreign

currency borrowing were hedged or repaid prior to the floating of the Baht and limit further additional liabilities to the Company. During the second half of the year 1997, the company absorbed many of the cost increase brought about through both domestic inflation and higher prices for imported products to build additional market share and brand recognition. These additional expenses were effected directly to the increasing cost of sales and selling & administration expense from 466,802 to 604,821 and 564,646 to 795,871 respectively. Those increasing expense was majority effect to decreasing net earning per year and growth rate of 1997 and 1998 (refer to Table 4.5)

The declining domestic economy combined with the sharp fall in the value of the Baht led the Stock Exchange of Thailand (SET) down to levels unseen for the past nine years. In spite of this, The Pizza Company continued to generate a strong following among local and foreign investors for quality of disclosure of income statement and balance sheet information in excess of SET requirements and local practice. In October 1997, The Pizza Company was one of only three Thai companies invited to the Flemings Asia 97 Conference in New York. This international recognition together with the large number of favorable research reports written by investment banks should position the Company benefit from the recovery of the Thai economy expected over the nearly future.

In the upcoming year The Pizza Company's primary goals are as follows:

- 1) Expanding all four-core food business while emphasizing wider operating margins and higher return on investments from existing assets.
- 2) Seeking new opportunities in both Thailand and abroad for Minor Cheese and Minor Dairy to benefit from their relatively lower production costs.
- 3) Reinforcing the high level of brand recognition and following of all their restaurants while maintaining the goal of 100% customer satisfaction.
- 4) Improving the Company's investor relations program to ensure that shareholders and the investment community receive transparent and timely disclosure of plans and events which affect their Company.

Table 4.5: Cost Analysis

Hut; operated by The Pizza Public Co., Ltd.

Description	1989	%	1990	%	1991	%	1992	%	1993	%
REVENUE										
Sales	240,313	99.40	324,119	99.77	385,213	98.50	498,537	98.46	534,000	94.22
Total Other Revenue	1,447	0.60	747	0.23	5,866.19	1.50	7,820	1.54	32,750	5.78
TOTAL REVENUE	241,760	100.00	324,866	100.00	391,079	100.00	506,357	100.00	566,750	100.00
Expense										
Cost of Sales	80,782	38.78	108,139	38.52	128,522	38.26	166,332	38.11	192,146	38.32
Selling & Administration Exp	101,869	48.91	138,309	49.27	164,379	48.93	212,737	48.75	235,805	46.78
License Fee	2,013	0.97	1,634	0.58	4,231	1.26	5,480	1.26	5,970	1.18
Interest Expense	4,039	1.94	5,569	1.98	6,618	1.97	8,569	1.96	15,307	3.04
Other Expense	19,587	9.40	27,083	9.65	32,188	9.56	43,290	9.92	55,970	10.69
TOTAL EXPENSE	208,290	100.00	280,734	100.00	335,838	100.00	436,408	100.00	504,198	100.00
% of Total Exp.: Total Rev.		86.16%		86.42%		85.90%		86.18%		88.95%
Earning Before Income Tax	33,470	13.84	44,132	13.58	55,141	14.10	63,949	13.81	62,552	11.05
% of Earn before Tax : Total Rev		13.84%		13.58%		14.10%		13.81%		11.05%
Cooperate Income Tax	12,621	5.22	15,996	4.92	15,311	4.89	24,603	4.86	13,303	2.35
Net Earning Per Year	20,849	8.62	28,136	8.66	36,130	9.24	45,346	9.86	49,349	8.71
GROWTH RATE (%)	25.61		34.87		18.55		29.42		7.11	

Table 4.5: Cost Analysis of Pizza Hut; operated by The Pizza Public Co., Ltd. (Continued)

Description	1994	%	1995	%	1996	%	1997	%	1998	%
REVENUE										
Sales	682,655	92.52	941,265	91.30	1,343,139	90.22	1,596,189	91.21	1,678,290	90.00
Total Other Revenue	55,214	7.48	89,714	8.70	145,622	9.78	153,903	8.79	179,810	10.00
TOTAL REVENUE	737,869	100.00	1,030,979	100.00	1,488,761	100.00	1,750,092	100.00	1,798,100	100.00
Expense										
Cost of Sales	246,909	37.39	337,796	38.51	466,802	37.48	604,821	38.78	617,700	38.68
Selling & Administration Exp.	301,448	45.65	379,178	43.22	564,646	45.33	795,871	51.04	845,075	52.92
License Fee	7,499	1.14	10,738	1.22	19,421	1.56	26,514	1.70	28,425	1.78
Interest Expense	35,895	5.44	65,944	7.52	88,032	7.07	130,750	8.38	104,100	6.52
Other Expense	68,619	10.39	83,587	9.53	106,699	8.57	1,500	0.10	1,500	0.09
TOTAL EXPENSE	660,370	100.00	877,243	100.00	1,245,600	100.00	1,559,456	100.00	1,596,800	100.00
% of Total Exp.: Total Rev.		89.50%		85.09%		83.67%		89.11%		88.80%
Earning Before Income Tax	77,499	10.50	153,736	14.91	243,161	16.33	190,636	10.89	201,300	11.20
% of Earn before Tax : Total Rev.		10.50%		14.91%		16.33%		10.89%		11.20%
Cooperate Income Tax	17,006	- 2.30	33,696	- 3.27	45,891	- 3.08	29,405	- 1.68	22,900	- 1.27
Net Earning Per Year	60,493	8.20	120,040	11.64	197,270	13.25	161,231	9.21	178,400	9.92
GROWTH RATE (%)	27.84%		37.88%		42.70%		18.84%		1.38%	

Source: The Pizza Public Co., Ltd. Annual Report 1988-1998

4.1.5 Marketing Analysis

Product: Pizza is Italian traditional food that famous in Europe, America and Asia. Ingredient consists of flour, specific recipe of Pizza Hut, cheese, vegetable and sausage. Beside pizza, Pizza Hut also supplies garlic bread, French-fried, onion ring, soup, salad pasta, and beverage. Pizza Hut is the market leader in pizza business. As the market leader Pizza Hut by The Pizza Public Co., Ltd. innovate new item of pizza and appetizer to motivate consumer and increasing their market share.

Price: Setting price strategy of Pizza hut by The Pizza is difference from other brand. Price does not have fix mark-up percentage but it will be calculated based on cost of each item. Gross Profit Margin of the company from the previous is approximately 65% (before advertising expense, rent expense, administration expense, depreciation, interest and tax). To increased product price, company considered to increase in the high sales volume item because the additional price in high sales volume could cover the increasing expense. Moreover, company has to compare the price with competitors to increase in reason price and not effect consumer perception. The Pizza Public Co., Ltd. has more advantage in lower production cost according to high number of outlets increase purchasing power to bargain with supplier, another strength is the cheese and dairy manufactories that can reduce main raw material cost. Currently, price of Pizza Hut is not differed from competitors. Pizza Hut is price settle in pizza market due to highest market share.

Promotion: Along 20 year of Pizza Hut in Thailand, The Pizza spends continuous budget in media advertising and sales promotion to create brand recognition and re-mind consumer to induce sales volume of Pizza Hut outlet. Television is the main media, fellows by publication. Sales Promotion of Pizza Hut are organized not lower than 3-7 times a year to motivate sales volume. During the economic crisis, Price cutting is as effective strategy to compete with both direct and indirect competitor. But price-cutting is not set in long term plan because it may effect the brand image.

Place: According to consumer behavior theory, as Brand consumers purchase by habit are likely to be high-turnover, low margin items, they should be distributed extensively. Widespread distribution is important for those consumers who purchase by habit because seeing the item reminds them to buy. Expanding distribution channel is one the major

objective of The Pizza Company, nowadays—year 2000-- Pizza Hut has 116 outlets nationwide. Their Distribution channel can be divided into 3 core channels:

- (1) Restaurant : Serve dine-in customer
- (2) Delco Unit : Take Home and Home Delivery only
- (3) Slice Bar : Take Home counter

Pizza Hut by The Pizza Public Co., Ltd. has bargain power with shopping mall to located in prime area because Minor Group is a big company and high potential to attract other investor and also attract customer.

Target group of Pizza Hut can be classified into 3 groups:-Family, teenager, and working group. The research reported that major customer of Pizza Hut is middle-age group 30-40, followed by 13-19 and 20-29respectively.

Table 4.6: Advertising Awareness 4th 1998 to 1st 1999

Brand Name	Quarter 4/98	Quarter 1/99
K.F.C.	91	91
PIZZA HUT	83	82
MC.DONALD'S	85	25
CHESTER'S GRILL	31	28
NARAI PIZZERIA	12	17
BURGER KING	16	26
DUNKIN' DONUTS	63	61
SWENSEN'S	51	42
MISTER DONUT	38	36
DAIRY QUEEN	22	9
Base : All Sample	662	530

Table 4.7: Brand Performance 1st 1998 and 1st 1999

Brand Name	Quarter	Dine-In	Take Away	Delivery
K.F.C.	(1/1998)	63	23	13
	(1/1999)	62	24	14
PIZZA HUT	(1/1998)	25	9	66
	(1/1999)	33	8	69
MC.DONALD'S	(1/1998)	75	23	2
	(1/1999)	76	20	4
CHESTER'S GRILL	(1/1998)	90	6	4
	(1/1999)	89	8	3
NARAI PIZZERIA	(1/1998)	58	6	35
	(1/1999)	37	13	50
S & P	(1/1998)	NA	NA	NA
	(1/1999)	45	53	2
MK. SUKI	(1/1998)	NA	NA	NA
	(1/1999)	96	NA	3

4.1.6 Franchise Agreement

Franchise agreement is the contract between The Pizza Public Company, Limiter vs. Pizza Hut Inc., which is a group company of Tricon International Restaurant Inc. Contract Date was started 18 January 1990, and contract term is 10 years. Means the contract was terminated on 18 January 2000. The condition of contract is that from 1989 to 1999 able to continue for 5 years. The contract description is the right to use Trademark obtains Technical know-how, training support and information to operate and develop Pizza business. Initial fee that The Pizza Public Co., Ltd. have to pay their franchisor is USD 15,000 per Restaurant and/or USD 8,750 per Delco Unit. The continuing fee is 4% of Gross Profit redeemed Tax. The additional conditions of franchise contract consisted of: opening 17 branches within 1991 and expanding at least 3 outlets a year

4.2.8 Conflict between The Pizza Public Co., Ltd. and Tricon International Restaurant Inc.

Pizza Hut is a brand name owned by Pizza Hut Inc. which is a group company of Tricon International Restaurant Inc. who is the owner of Kentucky Fried Chicken (KFC).

Pizza Hut has granted franchise to The Pizza to operate Pizza Hut in Thailand since 1980 and recontract in 1990.

According to the contract term of franchise agreement was terminated on 18 January 2000. Tricon International Restaurant Inc. head office of Pizza Hut brand was unsatisfied by The Pizza because The Pizza plan to import a Fried chicken franchise from Australia named Chicken Treat that is direct competitor to KFC, a group company of Tricon.

Mr. William E. Heineke, President of The Pizza Public Co., Ltd. and Minor Group concerned that the franchise of Pizza Hut to The Pizza should be terminated. Mr. Heineke, who has very well long-term plan to his business, said that he prepared to launch new brand called "The Pizza" same name as his company. The Pizza was planned to launch into marketplace on 22 February 2000 but it was postponed due to the judgement of New York Court. The New York Court stated that The Pizza Public Co., Ltd. still has the right to operate pizza business and all outlets expand by The Pizza Public Co., Ltd. under the name Pizza Hut until the case would be terminated.

Nowadays The Pizza Public Company Limited able to operate not only Pizza Hut and their existing brand name but also the new brand as Burger King and Chicken Treat, the information is confirmed by Tricon Global Restaurant. On 14 February 2000, Tricon opened Pizza Hut at Imperial Lad-Prao as his first outlet in Thailand. Tricon may face hard work to gain market share from Pizza Hut, by The Pizza, because of fewer outlets, higher cost-Tricon has to import cheese form New Zealand that lead to higher cost

All above information we can conclude that both international and local franchise is a guideline to run a new business but it may not guarantee success for investor. To succeed in franchise business it is not depend on system only but also cooperate and intention of franchisor and franchisee.



4.1.8 The Study of Competitor of Pizza Hut

Direct competitor of Pizza Hut is Narai Pizzeria Co., Ltd. who also operates food (pizza and pasta) and beverage business. Head office is located on Silom Rd., Bangkok Thailand. In 1968 it was named "Narai Pizzeria Pasta Shop" located on ground floor of Narai Hotel, Silom Road Bangkok. Firstly the company owner intended to serve hotel guest and foreigner in Silom and related area. Currently, Narai Pizzeria has 23 outlets--13 branches are restaurant the remain 10 outlets are quick corner--20 outlets are company owned, other 3 outlets are franchised all outlets are located in Bangkok metropolitan area. Due to the success of Narai Pizzeria operations, they intend to maintain their quality both their product and service under their slogan "The Best Pizza in Thailand". Vision and policy of Narai Pizzeria are mainly concentrated to quality and standardization of their product and service to satisfy their customer and maintain their image as premium product. Moreover, they forecast to expand their franchise system, aim to substitute imported franchise and generate income to home country and parent company.

Narai Pizzeria has conspicuous pizza menu, which consists of 14 original pizza menu and new launched 4 menus. Unique menu of Narai is Kimau Kai Pizza that applied to serve Thai's taste. Main raw material of pizza consists of cheese, flour, sausage and vegetable respectively. Narai Pizzeria have to import cheese, which is 30% of total raw material from Italy that induces higher cost than Pizza Hut who own local cheese factory, which is the strength of Pizza Hut to play price war in food market.

Nowadays Narai Pizzeria's service can be classified into 3 main group as follows:

Table 4.8: The Percentage of Narai Pizzeria's Service

Description	Percentage
Dining - In	55%
Delivery	40%
Take Away	5%

The main service of Narai Pizzeria is dine-in customer, following with delivery and take home respectively. Basically menu of pizza shop are similarity, which consists of pizza, pasta, soup, garlic bread, French-fried, beverage, etc. Narai launched pizza puff, baked baby clam with herb butter, spaghetti kimua chicken, lasagna beef/pork, margaroni au gratin and special pizza's topping to create product differentiation between Pizza Hut and Narai Pizzeria. This is the advantage of local franchise because they have more flexibility to apply menu and taste to serve local target group.

Ingredients of Narai Pizzeria are 30% imported from Italy—i.e. cheese, pasta-- induce high cost and varied by Baht value. According to Baht devalue in 1997, Narai Pizzeria faced problem of increasing raw material cost about 40-50%. Narai solve this problem by cutting media advertising budget and launched promotion at point of purchase that spend lower budget instead in order to increase sales volume and induce capital flow in.

Basically prices of Narai Pizzeria and Pizza Hut have similar range. They imitate each other to play price game. For example, Pizza Hut launch set menu to serve customer in special price Narai also launch similarity set but may offer some difference menu that Pizza Hut does not have for example Pizza Hut launched a set menu contained regular pizza, garlic bread, new Orleans chicken wings (8pcs.) and Pepsi 500ml at 229Baht, after that Narai launched a set menu contained regular pizza, fish and fried, spaghetti kimua chicken and Pepsi 1.25Lt. at 279 Baht.

In the price war, Pizza Hut gain more advantage due to its lower cost of raw material but Narai Pizzeria have to do something to maintain Narai's market share and the survival of the business. During the economic crisis, there are high competitions in fast food market. A well-known promotion strategy of Narai is 50%discount on Monday and Thursday to all pizza. At first launched it able to attract customer and increase sales volume especially. Nowadays Narai's marketing officer is planning to change this promotion because it was launched for a year. Moreover he believed that price-cutting was effectiveness in short term rather than long term, and he found that sales volume was increased on promotion days only. From the past, in 1996, Narai launched television advertising but most outlets are located in Bangkok metropolitan. Then the company eliminated Media advertising budget in 1997-2000 and

distribute promotion budget to point of purchase budget only i.e. distribute eaflet in front of their outlets or nearby competitors outlets to attract customer.

According to Table4.8, Dine-In is the main service of Naria Pizzeria, follows by Delivery. Narai Pizzeria has 23 outlets—13outlets are restaurant, 10 outlets are quick corner--20 outlets are company owned; the others are franchised. All outlets are located in Bangkok metropolitan area. Narai plans to increase 20 outlets within 4 years, 10-outlets will be company-own, 5 outlets will grant to franchise, and joint venture to 5 outlets. New outlets are emphasized to open in Bangkok area due to the standard control.

The most effective outlet of Narai's is Silom outlet, which located on ground floor of Narai Hotel, followed by World Trade Center and Central Pinklao. Main Target group of Narai is family and middle age, B+ group. On 1997, due to economic crisis Narai have to terminate ineffective outlet to eliminate loss. Last few years, Narai Pizzeria has expanded distribution channel through Home delivery. They developed Call Center by themselves, their phone number was 615-7000. At the same time, Pizza Hut spent more than 100million Baht to purchase high technology to support their Delivery section call Customer Service Center CSC, 712-7000. Narai has changed their Delivery phone number for several times, they thought that it may easier to memorize. In fact, several changes may confuse the customer. Narai terminated Narai's call center because of human resources problem, automation problems and high cost per call --using Narai's call center cost 13Baht per call.

Nowadays, Narai start using the number 1142, which is cooperation of Narai Pizzeria and Phonelink. This new service of Narai Pizzeria Delivery is called Hot Line Pizzeria customer able to order pizza easier via 1142 then Phonelink operator will transfer your order to Narai within a few seconds.

Narai Pizzeria is local franchise, which managed by Narai Pizzeria Co., Ltd. a group company of Narai Hotel Bangkok. The qualification of franchisee is that franchisee should manage the business by himself, franchisee have to pass the attitude test from franchisor to test the managerial attitude and self-confidence to operate franchise food business. Moreover franchisee should have good financial background, intention to operate food business and follow franchise regulation.

Table 4.9: Narai's Franchise Expense

DESCRIPTION	Semi Restaurant	Full Restaurant
➤ Area	60 Square meters	200 Square meters
➤ Approximate service seat	20 Seats	115 Seats
➤ Decoration Expense	568,000 Baht	1,760,000 Baht
➤ Equipment	1,080,000 Baht	1,620,000 Baht
➤ Pre-Operation Fee	100,000 Baht	100,000 Baht
➤ Royalty Fee	10% of income	10% of income
➤ Franchise Fee	300,000 Baht	300,000 Baht

Narai has training center located at Narai Pizzeria Co., Ltd., Silom Rd., Bangkok to support franchisee both initial and continuous training. Franchisee should attend by himself and/or send his staff to attend training program before open new outlet.

Quality Control service, Narai has quality control staff to survey and test the quality of product and service in order to maintain the Narai's standard. But the difference still exists among Narai's outlet especially at Narai Hotel. From the survey, assume that Narai Pizzeria at Narai Hotel has independent management, which manage by Food and Beverage Manager of Narai Hotel, it has different promotion and special set menu from other Narai outlet.

The flexibility regulation of Local franchisor is an advantage to local investor, such as the decoration concept of Narai can be adjusted to serve the budget of franchisee. But this may effect to the whole image of Narai's brand if some franchisee select unqualified material. Another advantage of Local franchise is that it will induce the import substitution and directly support nation economics because it able to reduce capital flow out to foreign country.

Disadvantage of local franchise is the small number of outlets that could effect to a problem and/or media advertising because lower number outlets higher members to share the advertising expense, another problem is the purchasing power to bargain against supplier. The solution of Narai is to combine purchasing order of Narai and Akane—Japanese restaurant of Narai group company—together to increase bargaining power and reducing cost but Italian and Japanese food have a few similar ingredient that able to purchase together.

4.2 Consumer Behavior of Pizza in Bangkok Metropolitan

Table 4.10: Marketing Research of Pizza Market Emphasized in Bangkok Metropolitan Area

Data Collected Period: First Quarter of 2000

The following data is the summary of pizza consumption behavior in Bangkok Metropolitan area.

No.	Description	Male	Female	Average
1	SEX			
	A) Male	68 persons		51.52%
	B) Female	64 persons		48.48%
2	Age			
	A) Below 20	17.65%	25.00%	21.33%
	B) 20 - 30	41.18%	45.31%	43.25%
	C) 31 - 40	24.99%	17.19%	21.09%
	D) Above 41	16.18%	12.50%	14.34%
3	Occupation			
	A) Government Official	5.88%	12.50%	9.19%
	B) Employee	35.30%	25.00%	30.15%
	C) Merchant	32.35%	12.50%	22.43%
	D) Housewife	0.00%	12.50%	6.25%
	E) Student	26.47%	37.50%	31.99%
4	Income per head per month			
	A) Below 5,000 Baht	10.29%	12.50%	11.40%
	B) 5,001 - 10,000 Baht	35.29%	40.62%	37.96%
	C) 10,001 - 20,000 Baht	29.41%	34.38%	31.90%
	D) 20,001 - 30,000 Baht	13.24%	7.81%	10.53%
	E) Above 30,000Baht	11.77%	4.69%	8.23%
5	Purchasing Frequency of Pizza			
	A) Everyday	0.00%	0.00%	0.00%
	B) Almost Everyday	0.00%	0.00%	0.00%
	C) Once a week	13.24%	15.63%	14.44%
	D) Once in a while	86.76%	84.37%	85.57%

No.	Description	Male	Female	Average
6	Point of Purchasing Pizza			
	A) Outlet in Shopping Mall	45.59%	46.87%	46.23%
	B) Stand Alone outlet	5.88%	4.69%	5.29%
	C) KIOSK	1.47%	3.13%	2.30%
	D) Convenience Store	2.94%	1.56%	2.25%
	E) Home Delivery	44.12%	43.75%	43.94%
7	If 2 pizza brands are located in a shopping complex which outlet you will select?			
7.1	Pizza Hut selling regular price vs. Narai Pizzeria 50%special discount on Pizza Menu			
	A) Selecting Pizza Hut	52.94%	50.00%	51.47%
	B) Selecting Narai Pizzeria	47.06%	50.00%	48.53%
7.2	Pizza Hut offer special price on set menu vs. Narai Pizzeria 50%special discount on Pizza Menu			
	A) Selecting Pizza Hut	52.94%	62.50%	57.72%
	B) Selecting Narai Pizzeria	47.06%	37.50%	42.28%
7.3	Both Pizza Hut and Narai Pizzeria offer special price on set menu			
	A) Selecting Pizza Hut	58.82%	45.31%	52.07%
	B) Selecting Narai Pizzeria	41.18%	54.69%	47.94%
7.4	Both Pizza Hut and Narai Pizzeria selling in regular price			
	A) Selecting Pizza Hut	70.59%	75.00%	72.80%
	B) Selecting Narai Pizzeria	29.41%	25.00%	27.21%
8	When asking for Pizza which brand is your first choice?			
	A) Pizza Hut	83.82%	87.50%	85.66%
	B) Narai Pizzeria	16.18%	12.50%	14.34%
	C) Pizza Haven	0.00%	0.00%	0.00%
	D) Alfredo's	0.00%	0.00%	0.00%
9	Which brand you purchase highest frequency?			
	A) Pizza Hut	82.35%	62.50%	72.43%
	B) Narai Pizzeria	17.65%	37.50%	27.58%
	C) Pizza Haven	0.00%	0.00%	0.00%
	D) Alfredo's	0.00%	0.00%	0.00%

No.	Description	Male	Female	Average
10	The reason that influence your decision making when do purchase and/or consume pizza?			
	A) Advertising & Sales Promotion	35.29%	40.62%	37.96%
	B) Family	11.76%	14.06%	12.91%
	C) Friend	22.06%	20.31%	21.19%
	D) Service Quality	2.94%	1.56%	2.25%
	E) Taste of Food	20.60%	12.50%	16.55%
	F) Decoration of Pizza outlet	1.47%	3.13%	2.30%
	G) Product's Price	5.88%	7.82%	6.85%
11	Which decoration style of Pizza outlet do you prefer?			
	A) Colorful and Modern Style	47.06%	75.00%	61.03%
	B) Country Style	52.94%	25.00%	38.97%
12	Have you ever used Home Delivery service of any brand?			
	A) Yes	70.59%	87.50%	79.05%
	B) No	29.41%	12.50%	20.96%
13	Do you remember Home Delivery's phone number of the underneath brand?			
13	PIZZA HUT			
	A) Yes	64.70%	62.50%	63.60%
	B) No	35.30%	37.50%	36.40%
13	KFC			
	A) Yes	44.12%	51.56%	47.84%
	B) No	55.88%	48.44%	52.16%
13	Narai Pizzeria			
	A) Yes	14.71%	25.00%	19.86%
	B) No	85.29%	75.00%	80.15%
13	Pizza Haven			
	A) Yes	0.00%	0.00%	0.00%
	B) No	100.00%	100.00%	100.00%
14	Do you know the conflict of Pizza Hut and his franchisee in Thailand?			
	A) Yes	44.12%	50.00%	47.06%
	B) No	55.88%	50.00%	52.94%

No.	Description	Male	Female	Average
15	Do you know what the number 640-2288 is?			
	A) Yes	29.41%	37.50%	33.46%
	B) No	70.59%	62.50%	66.55%
16	Does the conflicting of Pizza Hut have influence to your consumption behavior?			
	A) Yes	17.65%	25.00%	21.33%
	B) No	82.35%	75.00%	78.68%
17	According to Ques.16 which outlet do you prefer?			
	A) Pizza Hut; not important who is the operator	35.29%	23.44%	29.37%
	B) The Pizza because of intimately pizza's taste	17.65%	12.50%	15.08%
	C) Both brand and will compare which is the best	23.53%	37.50%	30.52%
	D) Compare the sales promotion of these brands	23.53%	26.56%	25.05%

From the above data, summarized that both male and female selected Pizza Hut as their first choice, average 85.66%. The answer of frequency of consuming pizza is both once in a while. The point of purchase is difference between male and female; male has higher proportion in Home delivery than female (44.12%: 43.75%)

Male has higher percentage of brand loyalty to Pizza Hut than Female who more sensitive to price cutting and sales promotion strategy, refer to question no.7; when Pizza Hut selling regular price and Narai offering 50% pizza's discount, 47.06% of male consumer will move to consume Narai Pizzeria, while the percentage of female is 50%, 2.94% higher than male. The special price of Narai set menu was efficiency to attract female consumer rather than male consumer due to the question 7.3, 54.69% of female consumer and 41.18% of male consumer selected Narai Pizzeria. Another interesting point, when both brand selling in regular price the percentage of consumers behavior was mostly move to Pizza Hut's side refer to question 7.4; 70.59% and 75% of male and female respectively.

The most important factor that influence both male and female consumer behavior is advertising and sales promotion while the outlet decoration is the last factor for male and service is the last factor for female. The favorite decoration style of male and female consumer are also difference, male prefer country style decoration while female prefer modern and colorful style.

The brand recognition of Pizza product is mostly recognized two brands Pizza Hut and Narai Pizzeria. According to the research, we summarized that pizza market in Thailand is Oligopoly market and Pizza Hut is the market leader who has highest market share, almost 90%.

The key point of Pizza Hut's success is the continuous development in all department especially their four P—Promotion, Price, Product, place—which included the continuous media advertising and sales Promotion to remind their consumer, the attractive product's Price, high standardization of their Product included service, and the continuous expansion and developing their Place—outlet to serve consumer nationwide.