

# Pizza Hut Benchmark Report

## Executive Summary

Pizza Hut benefits from substantial scale and strong brand equity as the 2nd largest national player in the \$1B+ chain pizza segment by domestic system sales. The brand (historically distinguished by its Pan Pizzas, Stuffed Crust products & fun innovation) has suffered a 15.4% decline in domestic market share among \$1B+ pizza chains over the last 10 years through 2017 with comp underperformance attributed to: bi-furcated dine-in/delivery system (with no marketing support for 40% of units that are dine-in); the brand's historical lack of everyday value in a very competitive price environment; delayed digital ordering initiatives; need for faster delivery speeds; increased competition from non-pizza delivery; and increased competition in the pan pizza category. The brand's current goal is to reposition towards a modern delivery concept with the help of its 2017 Transformation Agreement which included: (1) \$130MM franchisor investment to: upgrade restaurant equipment; accelerate improvements in restaurant tech; enhance digital & eCommerce capabilities; and boost ad dollars; (2) franchisee agreement to: implement national price points through 2019; increase their contribution to national ad spend; and contribute towards tech investments (digital ready POS). Brand upgrade also includes the addition of extra cheese on its pizzas and plans to either close or convert 80% of existing dine-in units to its Delco or new fast casual dine-in formats. The brand's marketing pivot towards a new NFL sponsorship (picking-up where Papa John's left-off) goes along with a new ad agency (the 5th in 10 years) and its notable that NFL ratings have been declining even though it remains one of the biggest marketing games in town. Value remains one of the most important aspects of the pizza business and while Pizza Hut has made progress with its \$7.99 large 2-top online only deal (introduced March 2017) and a new \$5 pick 2 platform (2 medium pizzas for \$10), the chain may do well to establish a permanent pizza value offer that is accessible online and off-line alike. Also, the chain may have more work to do to create a better financial model for delivery in high wage states (this represents a concern for the entire industry). **In conclusion, while Pizza Hut's sensible turnaround is built upon a return to basics (hot, affordable & convenient pizza) it is possible that sales would further benefit from a strong everyday value equation to go with a renewed emphasis on core competencies including pan, stuffed crust & innovation.**

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