

How America EatsSM

QSR

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THE QSR 50 2008



Hail Caesars!

Pizza players are struggling, but Little Caesars is bucking the trend.



It's been a tough year for pizza. An economic slowdown and skyrocketing commodity and gas prices have pounded the segment, and sales at some of the big chains are suffering. But one pizza player seems to be rolling with the punches better than the competition.

Detroit-based Little Caesars reported its seventh consecutive year of significant sales increases in 2007 and announced it had built more domestic units than any other chain. By comparison, others have not fared so well. Systemwide sales at Domino's Pizza fell for the second year in a row, while Papa John's remained mostly flat. Pizza Hut was able to pull out of a sales decline from 2006 but still closed 1,388 units last year, according to GE Commercial Finance, Franchise Finance numbers.

"Restaurant operators often times complain

about prices going up, but the pizza segment has been exceptionally hard hit," says Ed Zimmerman, president of Novato, California-based Successfoods Marketing, a foodservice consulting and marketing company.

Prices for cheese, flour, tomatoes, meats, and pizza boxes—which make up 75 percent of the food costs for the average pizza restaurant—have all risen dramatically, he says.

Cheese is up \$1 a pound, and flour has tripled in price, says Dave "Big Dave" Ostrander, pizzeria consultant with Michigan-based Dave Ostrander Consulting. Factor in the federal minimum wage increase, other rising expenses, and cuts in consumer discretionary spending, and it's easy to see why pizza profits are hard to come by.

"It's probably the toughest time I've seen in my 40-year career," Ostrander says. "It's been

tough for independents as well as chains."

Little Caesars, though, seems to be thriving. Sales for 2007 were up 13 percent, besting the previous year's gains of 11 percent, according to GE. So how are they doing it?

"I think we've got a real solid focus on what the customer wants," says Little Caesars president David Scrivano.

And that, in a word, is value.

"I don't know of any other pizza chain that has lower prices than we do but brings the quality we do," he says.

The brand's cornerstone effort in that category is the Hot-N-Ready, a large pizza that's ready-made and priced at just \$5.

"Their salvation has been Hot-N-Ready," Ostrander says. "And people always want to know how can they do it for \$5."

Scrivano says Little Caesars is feeling the commodity hikes like everyone else, but the chain is taking steps to mitigate food costs. The company's wholly owned distributor has been working with suppliers to establish long-term agreements and broker more volume buys. And some processes—such as dough rolling—have been automated to save labor and control portion sizes more tightly.

Ostrander believes the chain's lim-

PIZZA/PASTA

QSR 50 SEGMENT SALES \$13,081.5
PERCENT CHANGE 3.2%

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Little Caesars and Papa Murphy's posted double-digit sales growth, pulling the segment as a whole up from the slump of 2006.

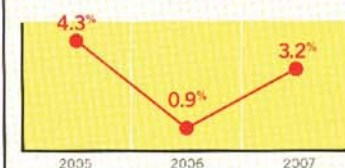
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Domino's and Papa John's continued the struggle with zero to low negative sales and store growth.

2007 SYSTEMWIDE SALES

RANK	UNIT	CHAIN	SALES (\$MIL)
1	7	Pizza Hut	\$5,400.0
2	12	Domino's Pizza	\$3,206.9
3	17	Papa John's Pizza	\$1,969.0
4	25	Little Caesars Pizza	\$915.0
5	33	CiCi's Pizza	\$570.0
6	39	Sbarro	\$520.0
7	40	Papa Murphy's Pizza	\$500.6

3-YEAR SALES GROWTH



SOURCE: GE CAPITAL SOLUTIONS, FRANCHISE FINANCE AND QSR

ited menu helps, too. While Pizza Hut is branching out to include pasta, Little Caesars has kept a fairly streamlined menu, concentrating mostly on pizza, wings, and breadsticks. The chain also stopped home delivery in all company stores and made the service optional for franchisees. Ostrander says that's proven to be a good move as fuel prices continue to soar, driving the average cost per delivery to about \$3.50.

"Delivery is one of the biggest headaches [the segment has]," Ostrander says. "You just can't deliver for that price."

Little Caesars' value positioning is nothing new. In place since 2004, the Hot-N-Ready predates more recent efforts from other chains, such as Pizza Hut's Pizza Mia, which offers customers three medium pizzas priced at \$5 each, and Domino's offer of four 10-inch, one-topping pizzas for \$4 each. Scrivano says the chain's founders, Michael and Marian Ilitch, who are still with the company, set out to provide an affordable way to feed a family in the late 1950s. Through the years, they've refined and honed the system, but the focus on value has largely remained the same.

"I think the consumer recognizes Little Caesars as value," Scrivano says. "They know that we build a great product for a great price. If you're known for something else and you suddenly cut your prices, the consumer might think you cut your quality."

Little Caesars, though, has always pushed its message of value to consumers.

"They've come back to this concept of Hot-N-Ready, and they've zeroed in on it," says John Correll, president of Canton, Michigan-based pizza industry adviser Correll Consulting. "They have focused on a single competitive concept, and the other chains don't have that. It enables them to differentiate in the mind of the consumer. They're driving one single nail into the mind of the pizza buyer, and the buyer remembers it."

The consistency of message has paid off. In a 2007 study by restaurant researcher Sandelman & Associates, customers rated Little Caesars No. 1 among 138 chains for providing best "value for the money."

"They're the lower-priced, good-value pizza chain," says Bob Sandelman, CEO of Sandelman & Associates. "In the current economic environment, that's a good place to be. And they don't have to go out of their way to tell people who they are and what they stand for. People

already know that. That's already their position in consumers' minds."

That should help the chain in what experts expect to be another tough year.

"This is going to be a shakeout year," Ostrander says. "In 2008 to 2009, I think we're going to have a lot of pizzeria failures."

Meanwhile, Little Caesars is ramping up to continue expansion. The chain, which will celebrate its 50th birthday next year, is now in the

third year of a five-year plan launched in 2005 that calls for more aggressive growth. Last year it built stores in 36 states and opened 241 new stores.

"Our pipeline is even bigger still," Scrivano says. "We'll continue to grow as we see success, as our model works, and our franchisees are happy. I believe we could still build thousands of stores throughout the U.S. and tens of thousands worldwide." —J.H.