

DOMINO'S PIZZA: "CHANGE IS GOOD"

Research Associate Colleen Lief prepared this case under the supervision of Professor Daniel Denison as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation.



It was a freezing night on New Year's Eve in Michigan. But, inside a Domino's Pizza store, it was easy to get caught up in a warm frenzy of activity. New Year's Eve was one of Domino's busiest nights, so all hands were on deck, including Domino's CEO, David Brandon. The CEO, elbow-deep in pizza dough, working alongside his crew, was an incongruous sight. But Domino's employees had come to expect the unexpected.

Brandon had long ago broken the mold made by Domino's founder, Tom Monaghan, in his previous 39 years of leadership. While both men had succeeded where others had failed, the two men were significantly different. Monaghan was a quiet, conservative man who had grown up in an orphanage and built a global enterprise from nothing. Ultimately, he had decided to sell Domino's in order to devote his time and fortune to charitable and religious activities.

Brandon was an outgoing high school athlete who went on to quarterback the University of Michigan football team. His coach recommended him to Procter & Gamble recruiters because of his leadership abilities and positive spirit. A people-person by nature, Brandon called on many of the lessons from his childhood on a Michigan farm during his management career. From P&G, Brandon went on to lead Valassis Communications, a direct marketing company that grew from a firm with a few hundred employees to a global leader in its industry. In his 20-year tenure, Brandon was most proud of Valassis being repeatedly named one of the 100 Best Places to Work by *Fortune* magazine.

In 1999, Monaghan sold Domino's to Wall Street investment bank, Bain Capital, which named Brandon CEO. How would an organization used to a more founder-driven brand of management thrive under an energetic, people-centric, team-oriented leader who would turn the world upside down?

From DomiNick's to Domino's

Domino's was acknowledged as a mega-brand by *Advertising Age* magazine, and was recognized the world over for its red, white and blue logo. By 2006, the Ann Arbor, Michigan-based company delivered an average of 1.3 million pizzas each day from nearly 8,400 locations (55% US franchisees, 38% international franchisees and 7% company stores) around the world. Its 145,000 employees worked at company-owned stores and franchises in 55 nations and generated \$1.4 billion in revenues.

The story of Domino's founding reads like a fairy tale. (Refer to ***Exhibit 1: Timeline of Domino's History***) Tom Monaghan and his brother, Jim, grew up in an orphanage in Michigan. In 1960, the two brothers bought a pizza shop, near Eastern Michigan University in nearby Ypsilanti, called DomiNick's for \$500 each. They reasoned that delivering a piping hot pizza to hungry college students could be a winning business model. But it was not long before Jim wanted out of the pizza business and traded his share of the store for Tom's Volkswagen Beetle. By 1967, DomiNick's had become Domino's and Tom's one shop had expanded throughout Michigan and focused solely on a simple product line and pizza delivery. No table service was available at Domino's, which kept costs low. Within ten years, the company had opened 200 locations in the US. In the early 1980s, Domino's opened its first international outlet and its 1,000th store. By 1989, the number of stores had grown to 5,000. A few were company-run, but the majority were owned and operated by franchisees. Around the same time, the first addition to the limited menu – pan pizza – was introduced. Over the next decade, the product line was expanded further and the patented HeatWave bag was invented to keep Domino's pizza hot until it reached the customer.

During his 39 years of ownership, Monaghan moved back and forth between the “hands on” management of daily operations and a more strategic role. He left the business twice, only to return, first in 1984 and then again in 1991. Both times he applied his management genius to get Domino's back on track. By the late 1990s, Monaghan had turned away from his earlier lavish lifestyle and became increasingly focused on religious charities. He often remarked that he “wanted to die broke.”

In 1998, Monaghan determined that it was time to put Domino's up for sale and start the new life he envisioned. Domino's was sold to Bain for what seemed like the high price of \$1.1 billion. Monaghan retained a 7% ownership share and a seat on the board for one year. Although Domino's had developed into a top brand and a major player in the pizza business, by the time of the transaction results had begun to stall. Onlookers wondered how the company would fare without the leadership of its founder.

Brandon: Day One at Domino's – “Listen and Learn”

Brandon immediately sought to accentuate his differences with Monaghan's style of leadership and the beginning of a new chapter at Domino's. Whereas Monaghan was a formal dresser, never without a business suit and tie, Brandon addressed the gathering of headquarters employees on March 12, 1999 in a golf shirt and khaki pants – standard business casual attire. He wanted to keep his

address short and sweet, so he started with the words that were his credo then and now:

If you don't remember anything else about me today, remember these three words – Change is good. Change is not a criticism of the past. It just means the future is going to be different. If that sounds exciting to you, you're going to love me. If any of you are thinking "I'd rather do things the way we've always done them," I've got to tell you – you're going to hate me.

Brandon tried to assuage employees' fears, but was determined to demonstrate that if they were open to new ideas and a new approach, they would face an uncertain but exciting future together. If not, Domino's was probably no longer the place for them. Clearly, the company needed some change, but after 39 years of one way of doing things, how would the staff respond to a wholesale reconsideration of all that had come before?

Brandon sensed that Domino's employees were not quite sure what to make of him. His preference for informality and optimism was different, perhaps even refreshing. But, no one could forget that he was chosen by a big Wall Street firm to deliver bottom-line results.

After his brief self-introduction, Brandon walked, along with the leadership team, to Monaghan's former office. What he found was overwhelming. The office was cavernous and sumptuously decorated. He immediately resolved to re-fit the room to more accurately reflect his personal style and business philosophy. On his way out of the room, he noticed two groups of portraits hanging on a distant wall. Brandon asked his team who the individuals were and why were they in two distinct groups. Finally, one brave manager informed Brandon that the paintings were of top company leaders. When one of them would disappoint Monaghan, they would be dismissed and their portrait would be moved from one side of the room to the other. At that moment, Brandon knew he had his work cut out for him.

Brandon: Day Two at Domino's – Fielding a Trusted Team

Brandon awakened the next morning, a little uneasy and not sure what to expect. He had ended his first day with a round of media interviews. Their questions were challenging. How could a manager with no retail or food experience be selected to head a company bearing one of the most recognizable names in the food business? Could victory in the coupon segment of the direct marketing business translate into success at the world's largest pizza delivery company, a legendary mega-brand? Journalists wondered what Bain Capital was thinking when they installed Brandon as CEO. As a *Wall Street Journal* article printed on Brandon's first day stingingly noted:

Other restaurant industry-watchers expressed surprise at Domino's selection of an industry outsider – even though they were unaware of Mr. Brandon's identity. The chain's new owners "are making wrong assumptions about what they think the business is," asserted Robert Damon, who runs the restaurant and hospitality practice for recruiters

SpencerStuart. “They think it’s a branding business, which it is not. It’s an operational-excellence business and a product-development business.”¹

Gathering his energy for a second day, Brandon headed off to meet with the head of human resources at Domino’s. The 158% annual staff turnover rate jumped off the page for Brandon. He urgently demanded to know what was being done to address this critical weakness. Quick calculations made the matter worse. With an employee base of nearly 150,000, Domino’s was recruiting, hiring and training over 200,000 people a year to work in its stores, often for a matter of days or weeks. No firm could sustain the lack of capability or the exorbitant expense implied by these figures. What stunned Brandon more than the figures was the HR chief’s response to them. He tried to assuage Brandon’s concerns by stating that the turnover levels were well within the norm for the pizza delivery business. Brandon was resolute. Anyone satisfied with such an untenable situation could not be happy and effective under his management. The HR chief was the first of several high-ranking executives to depart.

“Change is Not a Criticism of the Past”

Brandon’s personal approach to managing change included tangible factors such as financial resources and operational capabilities as well as less tangible factors such as a compelling culture and vision. (*Refer to Exhibit 2: Brandon’s Approach to Managing Change.*) His years of crafting a strong corporate culture at a high-growth company like Valassis convinced him there was a real art and science to producing a healthy work environment that would contribute to the bottom-line success of a company. He saw each component of his change management approach – from defining the reasons for change to developing an action plan – as critical to success. But if one element was missing, confusion, anxiety and frustration would result.

In Domino’s case, no change program could move forward until the gaping hole caused by employee turnover was filled. In addition to stabilizing staff departures, other objectives included being named among the “100 Best Places to Work,” opening a 10,000th store, generating annual EBITDA (earnings before interest, taxes, depreciation and amortization) of \$300 million and preparing the organization for an IPO (initial public offering).

Brandon focused on getting the right people in the right positions and utilized both top-notch, open-minded employees as well as talented outsiders. Re-orienting the corporation’s thinking processes toward determined optimism and “smart hustle” would prove key. Small but meaningful changes were instituted like renaming the “executive team” the “leadership team” and personal selection of the newly renamed “People First” Department (HR) head, Patricia Wilmot. But there were also other more radical changes. The hiring process from the top down would be largely based on intangibles. Skills could be taught but attitude could be stubbornly permanent. No former employees would be re-hired. This may have sounded like standard policy to some, but at the rate Domino’s churned through employees, franchisees were concerned they would be unable to field a complete

¹ Lublin, Joann. “Domino’s Reaches Beyond Its Industry to Name Brandon as Chief Executive.” *Wall Street Journal*, 12 March 1999:1.

team if former staff were ineligible. Brandon remained firm, reasoning that removing this crutch could also provide an incentive for keeping good employees.

The firm’s priorities also needed to shift from a primary focus on shareholders towards the needs of customers and employees. “Change resisters” had to be shown the door. Following this fundamental modification to thinking and policy, four of the six members of the “leadership team” who had greeted Brandon on his first day left.

Expanding on these concepts, Brandon’s team established four “guiding principles” and depicted them as a three-legged stool. Build the brand, maintain high standards, and flawless execution were the “legs” that supported and were held together by the People First function, which formed the top or “seat” of the stool. If any one part of the stool was missing, he reasoned, Domino’s would fall.



Franchisees: The Cornerstone of the Business Model

Nearly 90% of Domino’s 4,500 stores in the US and 100% of their 3,200 stores internationally were owned by franchisees. (Refer to ***Exhibit 3: Domino’s Business Model*** and ***Exhibit 4: Domino’s Success Factors***.) To ensure that they maintained a clear focus and commitment, Domino’s franchisees in the US were not permitted to have other commercial interests; pizza would be their only business. Since the very beginning, Domino’s had actively sought independent business people who were directly involved in the day-to-day operations of their stores.

How do you change the culture of an organization of 145,000 employees when only 7% of them are under your direct control? Answer: Equal parts competition, inspiration and training. J. Patrick Doyle, now president of Domino’s USA – the company-owned stores and franchisees based in the US – thought that the company stores should set the pace for innovation and best practices. This had not always been the case. Traditionally, the company stores were the most conservative and closely controlled. The franchisees were the innovators. But as the cultural and operational transformation began to unfold, an empowered, entrepreneurial spirit began to permeate the company stores. For example, they implemented on-line ordering much more rapidly. But once the franchisees got wind of Team USA’s achievements, they did not want to be outdone and began to develop innovations of their own.

Domino’s quickly focused on the central issue of training, with the prime objective of developing the franchisees and the store managers. Store managers were on the front line with customers, suppliers, pizza makers and delivery drivers demanding their attention 24/7. Even with stores that were strategically located to

enable “fast and nice” pizza delivery within a nine-minute radius, the business could never be successful without capable franchisees and store managers.

In the Monaghan era, top producers were awarded a fine silk “Hermes” French tie. In the new era, franchisees were armed with the tools needed to succeed in this tough business. The competition and execution pressures present in the industry were countered with instruction in the selection and training of store managers. A computerized test assessed prospective managers’ command of finance and management topics. When regional leaders were promoted, they attended basic finance courses to drive home the need for managers to understand the fundamentals of the pizza delivery business.

Success in changing Domino’s corporate culture could also be attributed to the new practice of “over-communicating,” which Doyle saw as 80% listening. Rather than focusing on incremental changes in the business model like the decision to sell Diet Coke alongside regular Coke, the emphasis out of headquarters was now on employee performance:

Before the changes, when we went out to see our franchisees and store managers, we would talk for hours about the numbers – a 2% change in factor costs or 1% drop in monthly sales. Now we talk about the people – who’s doing well, who’s struggling, who’s ready for the next challenge. That’s the difference.

Doyle conducted “positive energy tours,” traveling the country and meeting over 1,000 employees face-to-face. Instead of pointing out areas for improvement, he acknowledged their hard work and contributions to the company. Doyle realized these gatherings were likely to be the only time most workers would meet a member of the management team and did not want to waste this opportunity.

Later, when visiting franchisees performing in the bottom 25%, Doyle had to instead put on his “straight talk” hat. It seemed that complacency was the most significant barrier to perennial innovation and, therefore, results. He asked the simple question: Do you truly want to be in the pizza business, generating a significant income? If the answer was “no,” many other successful Domino’s franchisees were waiting to buy them out.

Tracking the Transformation

To track the success of these organizational changes, Domino’s implemented a corporate culture survey that was conducted each year from 2001 to 2006. Domino’s monitored its progress to determine if the changes were having a discernable impact on the organization. (*Refer to Exhibit 5: Organizational Culture Survey Results: 2001-2006*).

The results showed steady progress but also revealed a number of areas for improvement. This served as a catalyst to redouble efforts to communicate the message of quality, consistency and focus and to develop the workforce. Feedback and action planning sessions were held throughout the organization to create change objectives called “SMAC.” – objectives that were specific, measurable, achievable and compatible. This action planning process required work teams throughout the company to contribute to the on-going transformation.

Domino's also began to close in on its ambitious goals. The company had been named a finalist on a "100 Best Places to Work" list. Employee turnover had fallen from 158% to 92% and EBITDA was way up. Domino's went public in 2004 at \$14 per share, allowing Bain to redeem a portion of its investment. But, despite Domino's impressive progress, there were also a few setbacks. One situation that taught the leadership team volumes was the Oreo Dessert Pizza. Test marketing said that consumers loved Oreo cookies and Domino's Pizza. The statistics also showed they liked them together. Brandon's response was: "Really?" It seemed like an odd combination of two iconic brands. He asked for a re-test. Same results. Brandon still believed this was a bad idea. But who can argue with the data? The Oreo Dessert Pizza was launched and promptly crashed and burned. Brandon commented:

Experience, and my early P&G training taught me that data doesn't lie. But mistakes can also come when you don't listen to your gut instinct.

The Power of a Motivated Team

Despite all the second-guessing in the media at the start, Brandon had managed a masterful re-tooling of the company, and prepared Domino's to meet its future challenges.

The wheat we buy jumped from \$3.65 per bushel not too long ago, to \$19.00 per bushel in early 2008. The only way to respond to such distortions in the operating environment, I think, is to become an agile, learning organization.

Domino's became Bain Capital's most successful investment, earning a 200% preferred return and a 523% yield on equity. Mark Nunnally, managing director at Bain Capital, lauded Brandon:

You could put him in the middle of any company and he knows how to focus on key issues. I wish I could clone him.²

Brandon's main take away from his experience?

The one thing I've learned is – Remember to always play like you're behind!

² Bourdet, Dorothy. "Domino Effect: David Brandon Has Pizza Chain Shaking and Baking." *Detroit News*, 09 December 2006:1.

Exhibit 1 Timeline of Domino's History

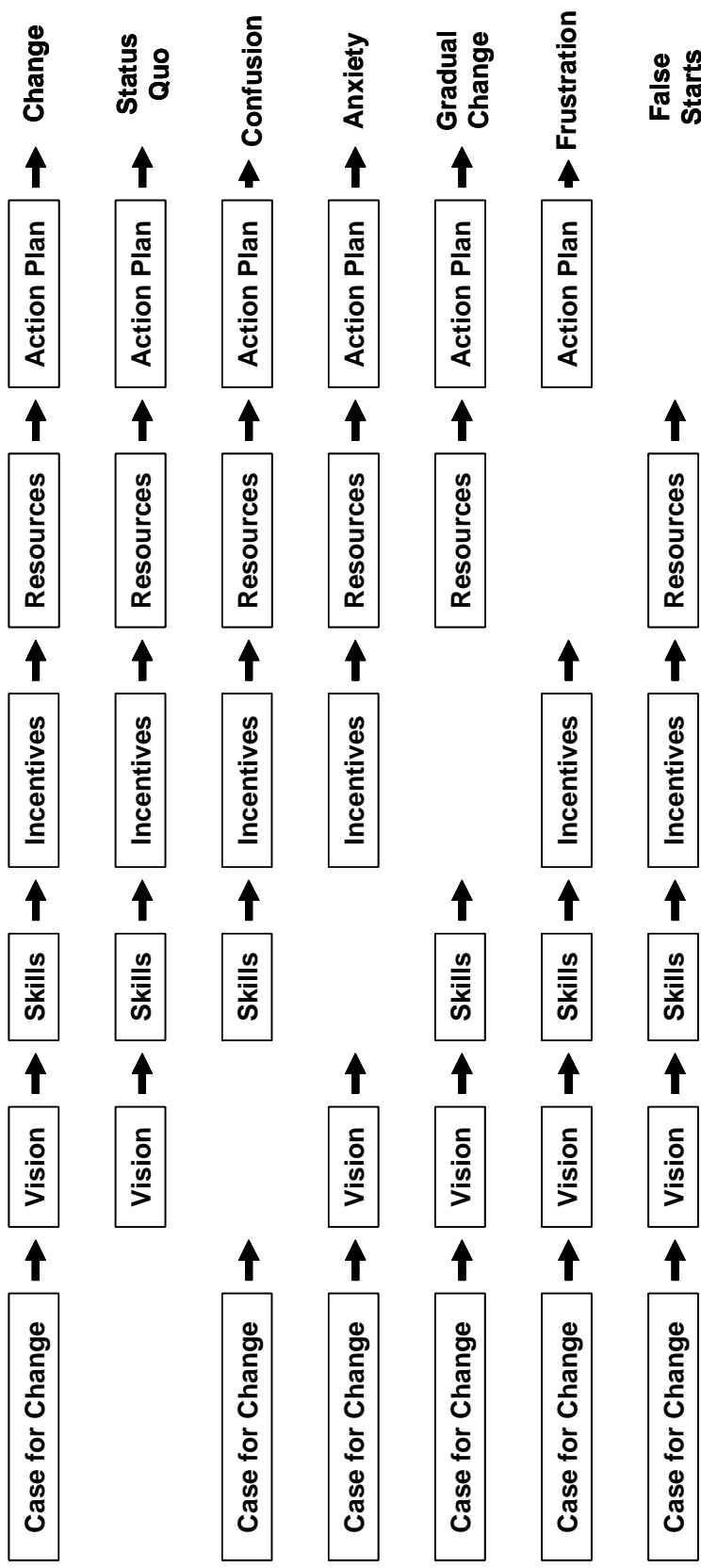
1960	Tom Monaghan and his brother James purchase "DomiNick's," a pizza store in Ypsilanti, Michigan. Monaghan borrowed \$500 to buy the store.
1961	James trades his half of the business to Tom for a Volkswagen Beetle.
1965	Tom Monaghan is sole owner of company, and renames the business "Domino's Pizza, Inc."
1967	The first Domino's Pizza franchise store opens in Ypsilanti, Michigan.
1968	Company headquarters and commissary are destroyed by fire. First Domino's store outside of Michigan opens in Burlington, Vermont.
1975	Amstar Corp., maker of Domino Sugar, institutes a trademark infringement lawsuit against Domino's Pizza.
1978	The 200th Domino's store opens.
1980	Federal court rules Domino's Pizza did not infringe on the Domino Sugar trademark.
1983	Domino's first international store opens in Winnipeg, Canada. The 1,000th Domino's store opens. The first Domino's store opens on the Australian continent, in Queensland, Australia.
1985	Domino's opens 954 units, for a total of 2,841, making Domino's the fastest-growing pizza company in the country. The first Domino's store opens in the United Kingdom, in Luton, England. The first Domino's store opens on the continent of Asia, in Minato, Japan.
1988	The first Domino's store opens on the South American continent, in Bogota, Columbia.
1989	Pan Pizza, the company's first new product, is introduced. Domino's opens its 5,000th store.
1990	Domino's Pizza signs its 1,000th franchise.
1992	Domino's rolls out bread sticks, the company's first national non-pizza menu item.
1993	Crunchy Thin Crust pizza is rolled out nation-wide. The Company discontinues the 30-minute guarantee and re-emphasizes the Total Satisfaction Guarantee: If for any reason you are dissatisfied with your Domino's Pizza dining experience, we will re-make your pizza or refund your money.
1994	Buffalo Wings are rolled out in all U.S. stores.
1995	Domino's Pizza International division opens its 1,000th store. First store opens on African continent, in Cairo, Egypt.
1996	Domino's launches its web site on the Internet (www.dominos.com). Domino's rolls out flavored crusts, for limited time only promotions, nationally for the first time in company history. The company reaches record sales of \$2.8 billion system-wide in 1996.
1997	Domino's Pizza opens its 1,500th store outside the United States, opening seven stores in 1 day on 5 continents consecutively. Domino's Pizza launches a campaign to update the company logo and store interior with brighter colors and a newer look.
1998	Domino's launches another industry innovation, Domino's HeatWave®, a hot bag using patented technology that keeps pizza oven-hot to the customer's door. Domino's Pizza opens 6,000th store in San Francisco, California in April. Domino's Pizza founder, Tom Monaghan, announces retirement and sells 93% of Company to Bain Capital, Inc.
1999	David Brandon is named Chairman and Chief Executive Officer of Domino's Pizza. Domino's Pizza announces record results for 1999. Worldwide sales exceed \$3.36 billion. Revenues increased 4.4% over 1998.
2000	Domino's Pizza International opens its 2,000th store outside the United States. Domino's Pizza celebrates 40 years of delivering pizza and innovation to homes around the world. During the past four decades, Domino's has paved the way for businesses involved in food delivery, employing practices that have set the standard in the industry. Domino's Pizza announces record results for 2000. Worldwide sales exceed \$3.54 billion. Revenues increased 5.3% over 1999.

Exhibit 1 (continued)

2001	<p>Domino's introduces one of the most exciting new products in the company's history...CinnaStix! Domino's launches the Get the Door advertising campaign. Domino's 7,000th store opens in Brooklyn, NY. Domino's launches a two-year national partnership with the Make-A-Wish Foundation® of America. Domino's stores in New York City and Washington DC provide more than 12,000 pizzas to relief workers at Ground Zero following the September 11 tragedy. Domino's establishes a team member matching funds program to financially assist the American Red Cross and donates \$350,000 to the Disaster Relief Effort. Domino's Pizza International division establishes Domino's first regional resource center with the majority stake purchase of the franchise in The Netherlands, setting the stage for expansion on the European continent. Domino's pizza announces record results for 2001. Worldwide sales exceed \$3.78 billion. Revenues increased 6.8% over 2000.</p>
2002	<p>In February 2002, Domino's Pizza acquired 82 franchised stores in the Phoenix, Arizona, market, making it the largest store acquisition in the company's history. In August 2002, Domino's kicked delivery up a notch with the introduction of Domino's Pizza Buffalo Chicken Kickers™ and marked the creation of a whole new surprising category – premium chicken delivered right to the door!</p>
2003	<p>Domino's announces an exciting multi-year partnership with the National Association for Stock Car Auto Racing (NASCAR) and becomes the "Official Pizza of NASCAR." Domino's is named Chain of the Year by Pizza Today magazine, a leading pizza trade publication. Domino's combines two culinary classics – pizza and Philadelphia Cheese Steak – to create the all-new Domino's Philly Cheese Steak Pizza.</p>
2004	<p>Domino's launches Domino's Cheesy Dots™, delicious round balls of dough covered in a blend of zesty melted cheeses. Domino's becomes an associate sponsor for the Drive for Diversity program, a minority driver development program designed to provide a steady pipeline of well trained and supported minority drivers for the NASCAR circuit. Domino's Pizza, Inc., the recognized world leader in pizza delivery, begins trading common stock on the New York Stock Exchange (NYSE) in July 2004, under the new ticker symbol "DPZ." The company announces a three-year partnership with St. Jude Children's Research Hospital. St. Jude was selected as Domino's "charity of choice" by Domino's franchisees and team members. In September, the Domino's Doublemelt Pizza is launched nationwide.</p>
2005	<p>Domino's Pizza celebrates the completion of the three-year renovation of its World Resource Center in Ann Arbor. The renovation marks the first major improvement to the company's world headquarters since Domino's founder Tom Monaghan opened the sprawling Domino's Farms. Domino's Pizza Australia opens its 400th store in Aspley, Brisbane. Domino's Pizza United Kingdom celebrates the opening of its 400th store in Wadsley Bridge, Sheffield. Domino's launches its Steak Fanatic Pizza. Domino's Pizza efforts worldwide raise \$220,000 to support southeast Asia tsunami relief efforts. Domino's Pizza launches its American Classic Cheeseburger Pizza in conjunction with its appearance as a featured task on the NBC hit reality show, "The Apprentice."</p>
2006	<p>Domino's celebrates the opening of its 8,000th store with simultaneous celebrations of the opening of its 5,000th U.S. store in Huntley, Ill., and its 3,000th international store in Panama City, Panama. Domino's extends its status as the official pizza of NASCAR and the official pizza of Michigan International Speedway. Domino's raises \$1.2 million for St. Jude Children's Research Hospital during its second annual "Thanks and Giving" campaign. Domino's Pizza introduces Brownie Squares — warm, delicious, bite-sized brownies delivered with a fudge brownie dipping sauce.</p>

Source: Company information

Exhibit 2
Brandon's Approach to Managing Change



Source: Company information

Exhibit 3 Domino's Business Model



Exhibit 3 (continued)



Source: Company information

**Exhibit 4
Domino's Success Factors**

Domino's Pizza is a proven entity with a 46-year history.

Domino's is a powerful global brand.

"Mega Brand" as defined by *Advertising Age*

Significant, ongoing investments in advertising result in broad consumer awareness

We are the #1 pizza delivery company in the U.S.

Largest share of pizza delivery channel

Reinforced by our well-known slogan, "Get the door. It's Domino's."®

We have a large and growing international presence.

Operate in over 55 countries

#1 or #2 market share position in most of our top 10 markets

We have a strong and proven business model with superior returns.

Strong unit economics: focused on efficient operating model; relative low cost to open; strong cash-on-cash returns

Franchisees succeed because the business model works forming solid partnerships

High renewal rates

Voluntary purchase from company distribution system

Geographically diverse franchise base with no significant concentrations

Superior return on assets; higher than the quick-serve restaurant peer average

We operate a profitable, value-added distribution system.

Ensures quality and consistency

Leverages purchasing power

Enhances franchisee partnerships through 50% profit sharing

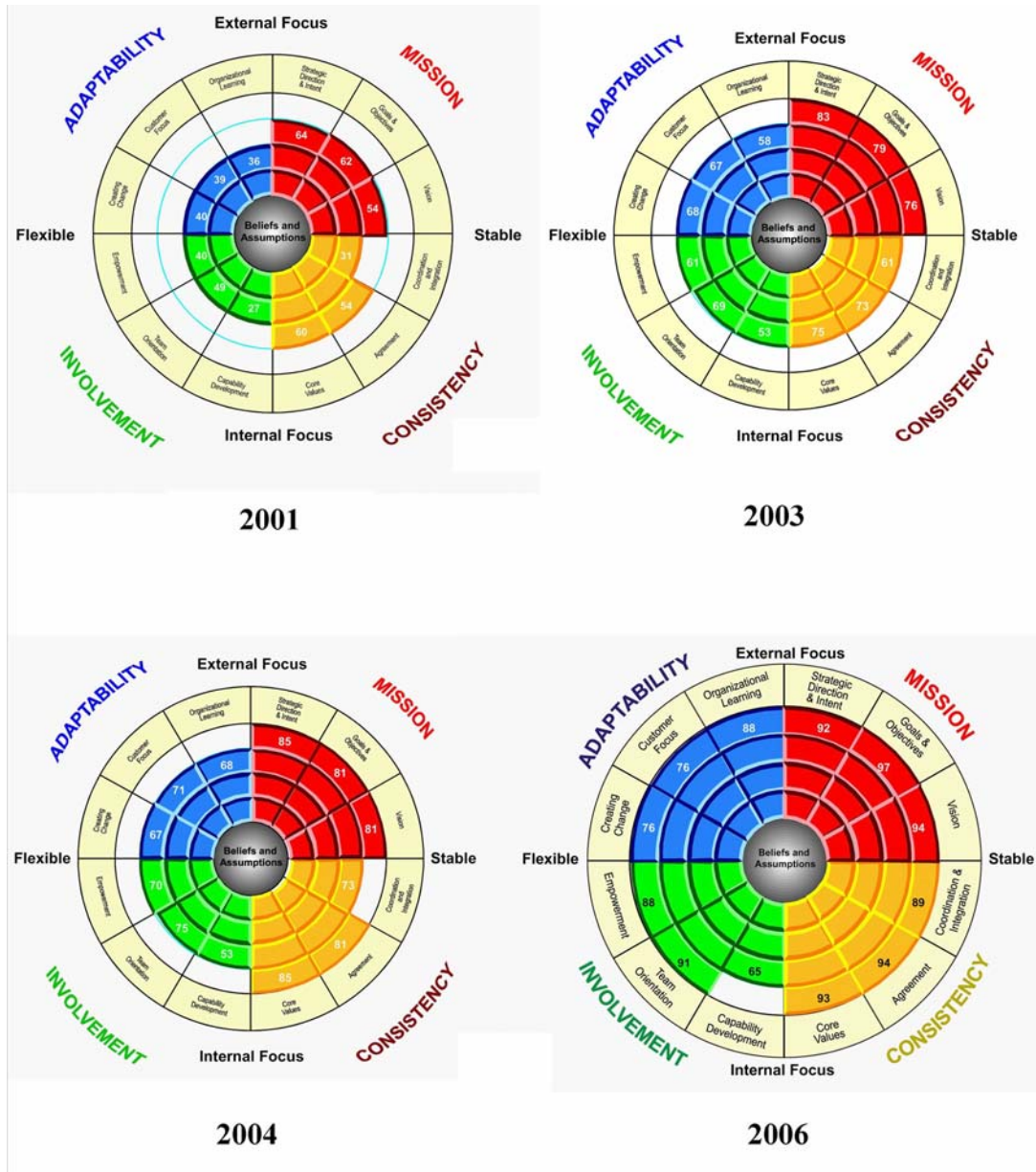
Allows stores to focus on sales and service

Our leadership team has a track record of success.

Delivered strong results since 1999 change of control

Source: Company information

Exhibit 5 Tracking Culture Change Over Time



Source: Denison Organizational Culture Survey