Domino’s Pizza Case Analysis

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**NAICS/SIC**

Each organized business is classified into an industry (United States Census Bureau, 2012). NAICS stands for North American Industrial Classification System. These specific codes are used by the government and businesses to classify different organizations by a certain type of economic activity (Thompson, Peteraf, Gamble, & Strickland, 2012. The NAICS code for Domino’s Pizza is 722513 (United States Census Bureau, 2012). This code is for Limited-Service Restaurants (United States Census Bureau, 2012). The definition of the code is stated as, “This U.S. industry comprises establishments primarily engaged in providing food services (except snack and nonalcoholic beverage bars) where patrons generally order or select items and pay before eating. Food and drink may be consumed on premises, taken out, or delivered to the customer's location” (United States Census Bureau, 2012).

Next, is the SIC Code. This code is only four digits and is another code used by the government and businesses to classify industry areas. The SIC code for Domino’s Pizza is 5812 (United States Census Bureau, 2012). These codes are mostly based on similarities within industries.

**Vision/Mission Statement**

According to their website, Domino’s Pizza mission statement is the following: Sell more Pizza, have more fun (Domino's Corporate, 2013). The mission statement consists of two important aspects- Products and/or services offered and the Target Market (Thompson, Peteraf, Gamble, & Strickland, 2012). Both consist of three groups that meet the needs of customers, meet the needs of employees, and meet the needs of investors (Thompson, Peteraf, Gamble, & Strickland, 2012). The Mission Statement is the company’s reason for existence and answers the question, why they exist (Thompson, Peteraf, Gamble, & Strickland, 2012). Domino’s Pizza mission statement is short and simple but really means more. Domino’s Pizza has been delivering high quality, affordable pizza in a timely manner since 1960, while creating a healthy atmosphere for all employees and customers (Domino's Corporate, 2013). We strive to be number one in pizza and number one in people. At Domino’s we take pride in customer satisfaction and provide returns for all investors through high revenues and income from operations (Domino's Corporate, 2013).

According to their website, Domino’s Pizza Vision statement is the following: Number 1 in Pizza, Number 1 in People (Domino's Corporate, 2013). The vision statement is geared towards a more long-term view than the mission statement. Also stated on the company’s website were several important values relating to their mission and vision statement. Their values include, Treat people as you’d like to be treated, produce best for less, measure, manage and share what’s important, think big and grow, set the bar high, train, never stop learning, promote from within, and we are not ordinary, we are exceptional (Domino's Corporate, 2013).

**Enterprise Strategy**

There is no Enterprise Strategy for Domino’s Pizza Corporation.

**Corporate Level Strategy**

Domino’s Pizza competes head on in the fast food industry, among companies like McDonald’s, KFC, Chick-fil-A, etc. However, more specifically, Domino’s serves in the pizza delivery restaurants. These restaurants include Pizza Hut, Papa Johns, and any other local pizza delivery brick and mortar.

An innate strategic advantage that Domino’s has over its competitors in the fast food restaurant industry are their 10,255 operating stores in the U.S. and international countries. As reported in their 10K report, Domino’s operates at three different segments along the business line. The first segment is domestically owned and franchised stores. This consists of the 4,540 franchised stores and 388 company-owned stores in the United States (“Domino’s Pizza, Inc.” 2012). The second segment that they operate in are their domestic supply-chain stores. “Domino’s supply-chain segment operates dough manufacturing and supply-chain centers, one thin-crust, one supply, and one vegetable center” (“Domino’s Pizza Inc.”, 2012). The third, and final segment that the company uses are their International operating stores, which conclude at a tally of “5, 327 stores outside of the contiguous United States.”(“Domino’s Pizza Inc.” 2012).

The overall attitude towards growth for Domino’s Pizza is to grow and become the largest, fastest, and overall best pizza delivery company in the world. To do this, they operate themselves by implementing and executing an array of growth strategies.

The first strategy that Domino’s executes on is concentration strategy. This strategy consists of a basic principle in which a business or company does one thing and does this one task very well. There are three sub-strategies underneath the concentration strategy and the first one is known as product development. The product development strategy means that a company sells a “new product” in the same market. Domino’s is using the product development strategy by selling new types of pizza, the thin crust and deep dish, along with the pasta bowls, chicken wings, and deserts to the same market of pizza consumers. This strategy allows Domino’s to diversify and strengthen their menu while appealing to a larger market of people that not only enjoy eating pizza but also other entrée’s that Domino’s has implemented into their menu.

The second sub-strategy is known as market development. This sub-strategy allows a company to sell the same product in a “new market”. Domino’s is doing this by going internationally and selling pizza in 70 foreign countries (“Domino’s Pizza Inc.”, 2012). This impacts the company in a positive manner because the 70 foreign countries significantly improve Domino’s revenue, but more importantly their profit. The third sub-strategy within the concentration strategy is known as market penetration. This strategy means that a company will sell more of the same product in the same market. Domino’s is doing this by selling more pizza with better deals to the same markets in America. A couple examples of this sub-strategy being implemented was the well-documented ‘5-5-5’ deal which consisted of deal three medium pizzas for just $5 per pizza. A second illustration comprised of a customer-favorite special of 2 Large-2 Toppings pizzas for just $8 each.

The above examples are just a few ways in which Domino’s effectively used various means within the concentration strategy to target a vast amount of people and allow Domino’s to become the number one pizza delivery company in the United States with a 22.5% share of the pizza delivery market based on reported consumer spending. Furthermore, Domino’s successful concentration strategy has also allowed them to become a leading international presence and rank as the second largest pizza company in the world, based on number of units (“Domino’s Pizza Inc.”, 2012).

Another growth strategy that Domino’s incorporates is backwards vertical integration. This type of growth strategy involves an organization purchasing supplies to achieve improved efficiency and cost savings. Domino’s operates 16 dough manufacturing centers in the U.S. and 6 internationally, a thin crust supply-chain center, and a vegetable center (“Domino’s Pizza Inc.”, 2012). By owning and operating various centers, Domino’s can position their selves to maintain a constant inventory on produces and the most important ingredient to their success; dough. Although these centers are not in Domino’s specific industry, it still allows them to gain a competitive advantage.

The last growth strategy that Domino’s use is as an alliance strategy. An alliance strategy is any agreement between two or more firms that is formally acknowledged (Thompson, Peteraf, Gamble, & Strickland, 2012). As reported in their 10K report, Domino’s is currently in an agreement with a cheese manufacturer as of October of 2012. Domino’s specifies this by stating that “the supplier agreed to provide an uninterrupted supply of cheese and agreed to and five-year pricing period in which Domino’s is to purchase all of its primary pizza cheese for the Company’s domestic stores…”(“Domino’s Pizza Inc.,” 2012). Domino’s also has a contract from a single meat supplier company starting in November of 2010 and ending in October of 2013 (“Domino’s Pizza Inc.”, 2012).

With respect to the organizational chart, collectively, we have decided that Domino’s Pizza Inc. uses a SBU/Advanced Structure for their company. This structure is comprised of a certain number of strategic business units that are underneath corporate. Compiled underneath these SBU’s are divisions. By using an advanced structure, corporate would always be at the top of the hierarchy. Below corporate, they are comprised of two strategic business units, which are then comprised of a certain number of divisions.

Domino’s operates its business in two different geographic areas which compose our strategic business units. The first one is United States and the second one is International Facilities. For the United States SBU, it is comprised of six divisions that Domino’s owns and controls. The six divisions are company-owned locations, franchised locations, 16 dough manufacturing locations, 1 thin-crust manufacturing location, 1 equipment and supply facility, and 1 vegetable facility. Each division works together to create the optimum level of revenue and profit. Under the franchised owned locations, they are headed by an owner who has a restaurant manager, supervisor(s), and employees that work for him or her. For the International SBU, it is comprised of all of the franchised locations and the six dough manufacturing facilities located oversees that support the 70 countries that Domino’s have locations in.

**Business Strategy Level**

Domino’s serves in the limited-service restaurant industry in which their primary line of business is fast food. Domino’s is classified as a limited-service restaurant because consumers typically pay for their food before consuming it. Also, food and drink may be consumed on premises, taken out, or delivered to the customer's location (“North American Industry,” 2011).

In order for Domino’s Pizza Inc. to compete in the fast food industry successfully, they must be able to appeal to a large amount of consumers based on cost and convenience both within the United States and internationally. As a result, Domino’s business level strategy would be being the best-cost provider. Domino’s reinforces their intent to demonstrate this strategy within their 10K report in which they state “We adhere to the following guiding principles, which are based on the concept of one united brand, system and team: putting people first, demanding integrity, striving to make every customer a loyal customer, etc.” (“Domino’s Pizza Inc.,” 2012). Being the best-cost provider, Domino’s must be able to provide some valuable attributes at a fair and reasonable price and Domino’s does this by constantly putting their customers first and letting their product come second. Realizing that the customers drive a business, Domino’s has positioned itself to maintain a constant grip on their business while allowing entrepreneurs to invest in Domino’s and open their own store(s).

Another instance in which Domino’s exhibits their best cost strategy is being the market share leader in the delivery segment and the second largest in carry-out. Domino’s specifically states that the above fact is a “segment we have been focused on growing given our strong brand, convenient store locations and quality, affordable menu offerings” (“Domino’s Pizza Inc.,” 2012).

Domino’s successfully competes in the fast food industry with the help of their four p’s of marketing. First off, with respect to the product, Domino’s offers its consumers 34 million different combinations of creating a pizza. This is their primary product; however, since 2008 Dominos have been implementing new appetizers and entrees on their menu to diversify from their primary product. Some of the new products include: cinnamon sticks, wings, pastas, and sandwiches.

Due to the nature of this specific type of business, price does not greatly fluctuate among various products because the fast food industry is based on the premise of convenience for a product that is generally accepted as inexpensive. In this area, promotion and price coincide in which they use promotion methods to offer numerous price points to customers. For example “Two Medium, Two-topping pizzas for $5.99 each”. Other than promotions used for their pricing strategy, the other aspect of pricing is the difference among the carry out option and delivery option, in which Domino’s charges a fee to deliver a customer’s order to its proper destination.

Arguably the biggest area in the four P’s is the promotion segment in which Domino’s serves to reach their customers. The primary means of promotion for Domino’s for successful advertising include: television, web-based promotions, radio and print. Furthermore, promotion has been an extreme level of importance to Domino’s within the past five years, Over the past five years, domestic franchise and Company-owned stores have invested an estimated $1.4 billion on national, local and co-operative advertising in the United States alone (“Domino’s Pizza Inc.,” 2012). Furthermore, Domino’s has been extremely concentrated in reinventing their brand name in which “domestic same-store sales have grown recently due to a brand revitalization campaign headlined by the success of their "New and Inspired" pizzas” (IBIS World, 2013).

In the final aspect, the place segment of Domino’s primarily consist of carry out and delivery. Domino’s insists that they believe by not offering a dine-in section, it gives them a competitive advantage. This is because it limits the expenses on facilities and staffing and allows Domino’s to focus on their customers via carry out and delivery.

As a result, Domino’s primary target market is concentrated within the United States and consists of the premise of consumers wanting the convenience of Domino’s product. Convenience typically applies to households with a family who are looking for perhaps their kids to enjoy a quality pizza at an affordable price, all the while being able to enjoy it in a relatively short period of time.

**Functional Level Strategy**

Domino’s functional areas consist of those where the work gets done for the corporation. Domino’s would be classified as using an advanced divisional structure in which each division operates as independent profit centers. Being in an industry that relies heavily on franchises to expand rapidly, it is easy to see that Domino’s must have executives who monitor each department of Domino’s. Furthermore Domino’s states “our domestic Company-owned store operations are divided into eight geographic areas located throughout the contiguous United States while our domestic franchise operations are divided into four regions (“Domino’s Pizza Inc.,” 2012).

Operations

Dominos serves 4,540 franchise stores domestically and 388 company-owned stores located throughout all 50 states (“Domino’s Pizza Inc.,” 2012). Furthermore, due to the operations of Domino’s, most of these stores do not have a dine-in area. Although this restricts the number of customers to serve, it allows Domino’s to focus on their primary business of carry out and delivery services to patrons. Furthermore, it minimizes operation costs and initial building costs from the beginning.

With respect to Domino’s international presence, they operate 10,225 stores worldwide, making it the second largest pizza company in the world (“Domino’s Pizza Inc.,” 2012). Although, Domino’s acknowledges that international pizza delivery is relatively weak compared to its presence in the United States, Domino’s believes there is a growing demand driven by the aspect of convenience. Domino’s is extremely thorough in appealing to their target market by stating in their 10K report that “the entire order taking and pizza production process is designed for completion in approximately 12-15 minutes” (“Domino’s Pizza Inc.,” 2012).

Domino’s operations are essential to their existence because 95% of Domino’s is franchised owned. In fact, Domino’s states on average franchisees own and operate an average of four stores (“Domino’s Pizza Inc.,” 2012). As a result, Domino’s Inc. main focus in their operations is providing enough advertising and marketing strategies for the franchisee while also keeping communication constant to provide accountability among the franchise owner.

Management

It is management’s duties to look over the operations among the domestic and international stores that Domino’s operates. Furthermore, the company-owned stores operations are divided into eight geographic areas throughout the United States while the franchise operations are only divided into four regions. Specifically within these various eight areas, team members provide direct supervision over the 388 company-owned stores.

The franchise operated stores facilitate differently among management in that the team members provide additional benefits to the operations of the stores. This includes training, store operational audits and marketing services, as well as financial analysis and store development services to our franchisees. In order to stay on the same page with respect to communication, Domino’s implements an array of computer-based training materials that help franchise stores comply with standards set forth by Domino’s. In order to do this efficiently and economically, Domino’s has franchise advisory groups which facilitate communications between the company and the franchisees

Human Resources

This department within Domino’s Inc. deals with the applications of entrepreneurs who want to obtain a franchise store from Domino’s Inc. This means that human resources (Franchise Development Team) must be able to identify those individuals who are capable of bringing cash back into the corporation while maintaining the integrity of Domino’s standards and mission. In order to do this, Domino’s maintains a close relationship with their franchise stores through regional franchise teams. This allows Domino’s to leverage among the franchise owners to comply with the standards set forth by the corporation.

Research and Development

With respect to the research and development department within Domino’s, the company specifically states that this area of their functional department operates in their headquarters, Ann Arbor, Michigan. In this department, the company-sponsored research and development activities include tasks like testing new products to add to their menus (“Domino’s Pizza Inc.,” 2012).

**Industry Analysis**

According to IBIS World and the five forces model of competition, Domino’s Pizza has competition from rival sellers. Their main competitors include McDonald’s, Yum Brands, Cracker Barrel Old Country Store, Wendy’s, Burger King Worldwide, Jack in the Box, Red Robin, and Papa John’s (Mergent Online, 2013). There is little competition from potential new entrants because the industry is very mature and has possibly reached its saturation point in the domestic market (IBIS World, 2013). Due to several factors this industry is not very attractive even though it has low barriers to entry (IBIS World, 2013). According to IBIS World, “The limits of population size within a city or town that can properly support a franchise are being approached, and competition for other high profile areas is intense. Over the next few years, industry value added, which measures its contribution to GDP, is expected to grow at an average rate of 1.1% per year, compared to GDP’s expected growth rate of 1.8% (IBIS World, 2013).

There are many reasons for a mature life cycle. Industry saturation is occurring in all food-service industries (IBIS World, 2013). Profit Margins are low due to significant price-based competition on menu items (IBIS World, 2013). Growth in this market will occur only from garnering market share and revenue from other food-service industries (IBIS World, 2013). Significant price-based competition is continuing as well, as operators strive to capture an increasing market share of slow growth domestic market (IBIS World, 2013). When discussing sales and projected growth of the market, many franchise owners and operators are currently expanding overseas to places like China, in particular (IBIS World, 2013). Through expansion the company is able to generate more sales growth and establish a fair chance for market share in the new location.

As economic activity increases, restaurants will focus less on specials and more on their quality services. Over the next five years the number of establishments is supposed to increase 1.2% per year (IBIS World, 2013). Another huge shifting factor is the change in consumer preference. According to IBIS World, the focus use to be on French, German and soul foods. Now is a strong preference for Italian, Mexican, Japanese, Caribbean, and Mediterranean Foods (IBIS World, 2013). This trend is expected to slowly grow as immigration patterns influence the shift of cultural preferences (IBIS World, 2013).

Besides rival competitors, substitutes within the market include single-location full service restaurants, bars and nightclubs, coffee and snack shops, and fast food restaurants (IBIS World, 2013). The restaurant market share is too large to analyze per company so it is analyzed by the entire industry. Pizza Shops hold 10%, Mexican food 8%, Cuisine restaurants are at 40%, Asian food is 20%, American food is 12%, and European food is 10% (IBIS World, 2013). There are four key economic driving forces. These forces include consumer spending, consumer sentiment index, healthy eating index, and households earning more than $100,000 (IBIS World, 2013). Factors that influence the growth of personal consumption play a major role in consumer spending (IBIS World, 2013). According to IBIS World, “Changes in consumer sentiment have a significant effect on household expenditure on discretionary items, including restaurant dining. During a recession, demand for low-priced value products from restaurants increases” (IBIS World, 2013). The healthy eating index is important because consumers are more aware of health related problems and as the index increases, demand for healthier restaurants will increase, opposed to those who lack healthy products (IBIS World, 2013).

It’s estimated the chain restaurant industry will resume its long-term term growth in the future. IBIS World states that revenue is expected to grow at 5.5% in 2013 to $57.6 Billion (IBIS World, 2013). Overall the industry is not attractive to enter because of the maturity but revenue and sales are projected to grow slowly. There will be intense competition for the next few years. Fierce price-based competition and an increase in new products will become the focus for many companies (IBIS World, 2013).

**SWOT Analysis**

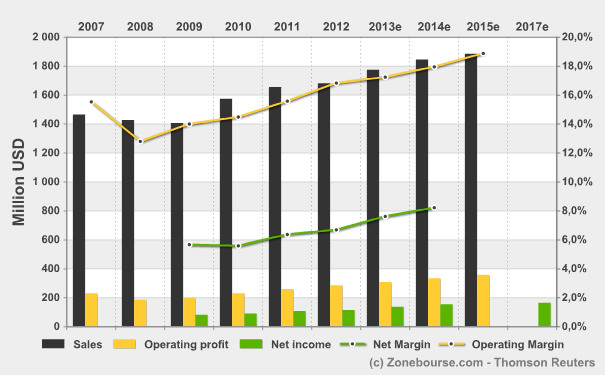
|  |  |
| --- | --- |
| Strengths   * Strong Management-Business, Management * Domino’s Brand Name-Corporate, Management * Unique Selling Products-Business, Marketing * Satisfyingly Tasting Products-Business, HR * Supply Chain-Corporate, Management * International Presence-Corporate, Marketing/Management * Strong ROA(36.81%)-Corporate, Finance * Increasingly Strong ROC(75.60%)-Corporate, Finance | Weaknesses   * Slow Growing-Corporate, Management * Lack of Organic Pizzas-Corporate, Marketing * Price-Corporate, Marketing * High Staff Turnover-Business, Management/HR * Slower Return on Assests than Industry Average(3.50)-Business, Finance * Extremely Weak ROE(-8.81%)-Corporate, Finance |
| Opportunities   * Emerging Markets-Economic * Increase in Internet Purchases-Technological * Iphone Application-Technological * Newer/Better Special Promotions-Business Operations | Threats   * Increase of Food Costs-Economic/Environmental * Increasing Market towards Healthier Foods-Sociocultural * Increase of Substitute Products-Competitor |

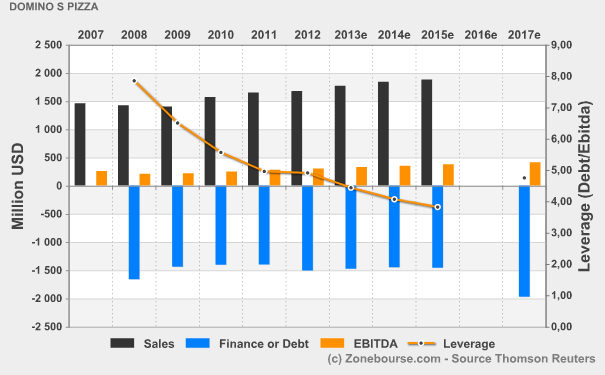
**Central Problem**

The central problem with Domino’s Pizza is negative Shareholder Equity. Negative Shareholder Equity (Stockholders Equity) means the company has incurred several losses that offset the combined amount of payments made to the company for its stock by investors (Bloomberg, Businessweek, 2013). Shareholder Equity = Total Assets – Total Liabilities. Domino’s Pizza has more Total Assets than Total Liabilities. As a measure, Shareholder Equity reveals what the owners of a company (shareholders) would be left with if all assets were sold and all debts were paid. In the case of negative Shareholder Equity, the owners theoretically would owe money, although the structure of publicly traded corporation prevents common stockholders from facing actual liability (Bloomberg, Businessweek, 2013).

Negative Shareholder Equity is a strong indicator of bankruptcy, and so it’s considered a major warning flag for loan officers and credit analysts. Negative Shareholder Equity is common for several situations. A company has several period of massive losses that more than offset the balance in Shareholder Equity, and management has chosen to fund those loses with debt (liability) rather than selling more stock (Bloomberg, Businessweek, 2013). If a company were to liquidate at the time of negative Shareholder Equity, the shareholders would likely receive nothing in exchange for their original investments in the company’s stock.

Another factor contributing to unequal debt is a negative Interest Expense. Most Interest Expense comes from loans with banks, other lenders, and bonds possibly sold to the public (4-Traders, 2013). Negative Net Interest means that you paid more interest on your loans than you received in interest on your investments (4-Traders, 2013).

(4Traders, 2013)

 The graph above is the Income Statement Evolution from 4-Traders website. According to 4-Traders website, this graph provides a possible financial outlook for Domino’s Pizza into the future. Although Sales look to increase steadily, Net Income seems to be increasing at a much slower rate. A slow growing Net Income is a sign of financial trouble.

(4-Traders, 2013)

The graph above is the Financial Leverage for Domino’s Pizza. According to 4-Traders website, projections for the next several years do not look good. Sales and EBITDA both increase but the main concern is Financing and Debt. This relates to the central problem with Domino’s Pizza and this graph is a perfect example of future projects. As the next several years approach 4-Traders website has predicted that there will be negative leverage (4-Traders, 2013). Negative leverage states that cost of borrowing money is greater than the return on the investment and this relates to the central problem (4-Traders, 2013).

**Solution**

The true value of a company is the market value of its assets minus the present value of all its liabilities (Bloomberg Businessweek, 2013). Shareholder Equity is viewed on the balance sheet when estimating the worth of a company (Bloomberg Businessweek, 2013). There are several components to Shareholder Equity including Retained Earnings, Current Profit, and funds paid in by shareholders. A good but not optimal solution to solve negative Shareholder Equity would be Capital Contributions. Capital Contributions are funds that stockholders invest in a corporation beyond what they have paid for in shares. If Shareholders lend the corporation money to grow, these funds will appear in the Capital Contributions and that causes Shareholder Equity to rise on the Balance Sheet (Bloomberg Businessweek, 2013). Funds can be paid to Shareholders as a return of the shareholders capital invested, or as a dividend paid out of Retained Earnings or Profit (4-Traders, 2013).

The recommended solution for negative Shareholder Equity is to increase Net Profit. When a company makes a Net Profit, it will appear as an increase in Shareholder Equity (4-Traders, 2013). All profits in a company can be added to Retained Earnings the following year or paid out as dividends to investors (Bloomberg Businessweek, 2013). Due to the fact that the Domino’s Pizza has a negative ROE, and negative Retained Earnings, it’s extremely critical to add to this account. When a company’s Retained Earnings grow over time, they are viewed by potential investors as a stronger company than one that distributes all profit immediately to its owners (Bloomberg Businessweek, 2013). Retained Earnings help a company have funds to grow and prosper (Bloomberg Businessweek, 2013). If Domino’s Pizza can increase Shareholder Equity by raising Net Profit, the company will valued more highly by investors and traders. There are several other ways to increase Shareholder Equity but increase Net Profit gives the company the most available options.

**Proforma: 1**



(Domino’s Corporate, 2012)

The first proforma estimates Domino’s Pizza Revenue. As an entire group, we came up with an overall percentage growth of 6.27% (Domino’s Corporate, 2012). The annual percentage growth was 1.57% (Domino’s Corporate, 2012). This was found by dividing the overall growth percentage by the number of years used. The revenues were stated on the income statement dating back to the beginning of 2010. The four revenues for the past years were added together and divided by the number of years to find the average growth rate in revenue.

**Proforma: 2**



(Domino's Corporate, 2012)

The second proforma for Domino’s Pizza estimates Net Income after Taxes. As a group we decided on an overall growth rate of 12.27% (Domino’s Corporate, 2012). After finding the overall growth rate we estimated the annual growth rate to be 3.07% (Domino’s Corporate, 2012). To find these numbers we used the Net Income after Taxes for the last four years. We then found the average growth rate by adding all the Net Income after Taxes together and dividing by the number of years used. This gives us the overall average growth rate that we decided to us. After finding the overall growth rate we can then find the annual growth rate by dividing the overall growth rate by the number of years used. These calculations help us estimate the future Net Income after Taxes for Domino’s Pizza.

**Ratios**

|  |  |  |
| --- | --- | --- |
| **Financial Ratios (%)** | **Domino’s Pizza Inc. (2012)** | **Industry Average (2012)** |
| *Profitability Ratios* |  |  |
| ROA % (NET) | 36.81 | 15.10 |
| ROE % (NET) | -8.83 | 31.40 |
| ROC % (Capital) | 75.60 | 22.33 |
| EBITDA Margin | 18.25 | 9.90 |
| *Liquidity Ratios* |  |  |
| Quick Ratio | 0.82 | 0.60 |
| Current Ratio | 1.33 | 1.10 |
| *Debt Management* |  |  |
| LT Debt to Equity | NM | 28.90 |
| Total Debt to Equity | NM | 44.20 |
| *Asset Management* |  |  |
| Total Asset Turnover | 3.50 | 3.20 |
| Receivables Turnover | 18.52 | 36.90 |
| Inventory Turnover | 38.12 | 43.90 |
| Inventory | 4.34 | 10.39 |
| *Efficiency* |  |  |
| Cash Conversion Cycle | 6.48 | 5.75 |
| Payable Period | 22.81 | 11.67 |

(IBIS World, 2013)

The first of ratios consist of profitability ratios. These ratios included return on total assets, return on stockholder’s equity, and return on capital. Domino’s Pizza ROA was at 36.81, compared to an industry average of almost half of Domino’s Pizza (IBIS World, 2013). Domino’s Pizza has an excellent ratio when it comes to return on assets compared to the industry. ROA is the measure of the return on total investment in the enterprise so the higher the return on assets the better. Interest is added to after tax profits to form the numerators, since assets are financed by creditors as well as stockholders (IBIS World, 2013). The next profitability ratio is ROE. Domino’s Pizza has a negative return on equity compared to an industry average of around 31.40 (IBIS World, 2013). Return on stockholder’s equity shows the return stockholders are earning on their investment in the enterprise. As discussed during the central problem and solution, Domino’s Pizza needs to evaluate their company financially from an equity standpoint. As a group we discussed several solutions to increase shareholder equity on their balance sheet.

Next is the Liquidity Ratios which included the quick ratio and the current ratio. Domino’s Pizza has a quick ratio of 0.82, compared to the industry average of 0.60 (IBIS World, 2013). The quick ratio is an indicator of a company’s short term liquidity. It measures a company’s ability to meet its short term obligations with its most liquid assets. Domino’s Pizza has a higher quick ratio than the industry average which is good because the higher the quick ratio the better position of the company. The current ratio show’s a firm’s ability to pay current liabilities using assets that can be converted to cash in the near term. Domino’s Pizza ratio was 1.33 which is quite average, compared to the industry average of 1.10 (IBIS World, 2013).

After analyzing the liquidity ratios we then move onto the debt management ratios also knows as leverage ratios. As discussed in the central problem and solution, Domino’s Pizza has negative stockholder’s equity so there long-term debt to equity and debt to equity ratio is not measurable (IBIS World, 2013). This means that their shareholders are not receiving any returns on their initial investments. According to 4-Traders website, graphs in the problem and solution section shows financial leverage projections of the future for Domino’s Pizza. As the graph shows, Domino’s Pizza looks to be headed towards negative leverage.

Next in the ratios table is asset management. Asset management includes total asset turnover, inventory turnover, and receivables turnover. Domino’s Pizza has a total asset turnover ratio of 3.50 compared to the industry average of 3.20 (IBIS World, 2013). Although the numbers are close, this is a positive ratio to have for Domino’s Pizza. The ratio measures the ability of a company to use its assets to efficiently generate sales. The lower the firm’s ratio the more sluggish their sales are said to be. In this case Domino’s Pizza is better off than the industry. Next is the receivables turnover. Receivables turnover is a measure used to quantify a firm’s effectiveness in extending credit as well as collecting debt. Domino’s Pizza has a low receivables turnover at 18.52 compared to the industry average of 36.90 (IBIS World, 2013). This is bad for Domino’s Pizza because a low ratio implies the company should re-assess its credit policies in order to ensure the timely collection of imparted credit that is not earning interest for the firm (IBIS World, 2013).

The last set of ratios consists of the efficiency ratios. First is the cash conversion cycle. Cash conversion cycle is the length of time, in days, that it takes for a company to convert resource input into cash flows (IBIS World, 2013). It attempts to measure the amount of time each net input dollar is tied up in the production and sales process before it is converted into cash through sales to customers (IBIS World, 2013). Basically, it’s the time between the outlay of cash and cash recovery. Domino’s Pizza cash conversion cycle is 6.48 compared to the industry at 5.75 (IBIS World, 2013). Both ratios are fairly close and Domino’s Pizza seems to be right around the industry average which is good. The short the cycle the less time capital is tied up in the business process, thus better for the company. Last but not least is the payables period ratio. This ratio indicates the average number of days a company has to pay its suppliers. Domino’s Pizza payable period ratio is 22.81 compared to the industry average of 11.67 (IBIS World, 2013). This is excellent for Domino’s Pizza because the greater the number, the more cash a company has for the other working capital needs (IBIS World, 2013).

**Appendices**

Another part of financials is stock pricing. According to IBIS World, Domino’s Pizza (DPZ) current stock price was at 49.70 per share as of 4/18/2013 (IBIS World, 2013). The number of shares outstanding is 556.77 million (IBIS World, 2013). This is compared to one of their leading competitors, Papa John’s Inc. (PZZA). Papa John’s current stock price was 60.26 with 23.13 million shares outstanding as of 4/18/2013 (IBIS World, 2013). As we can see Papa John’s stock price is slightly above Domino’s Pizza but Domino’s has almost double the shares outstanding. This means Domino’s Pizza has twice the investors who are willing to buy stock than Papa John’s.

**Organizational Chart**

**SBU/Advanced Structure**

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