



GCE A level

1083/01

BUSINESS STUDIES – BS3

P.M. WEDNESDAY, 12 June 2013

2 hours

1083
010001

ADDITIONAL MATERIALS

In addition to this examination paper, you will need:

- a calculator;
- a 12 page answer book.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

Answer **all** the questions.

Write your answers in the separate answer book provided.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question.

You are reminded that assessment will take into account the quality of written communication that involves extended writing in questions 4 and 5.

You are reminded that questions 4 and 5 are synoptic and so will test understanding of the connections between different elements of the subject.

Study the information provided about *Domino's Pizza plc* and answer the questions that follow.



DOMINO'S PIZZA HISTORY

Domino's Pizza was founded in the United States in 1960 by a man called Tom Monaghan. With \$500 in his pocket, Tom joined forces with his brother and together they opened a pizza store in Ypsilanti, Michigan. They named it DomiNicks. A year later, Tom traded in his Volkswagen Beetle car for his brother's share of the business and later renamed his business Domino's Pizza. The three dots on the logo represent the three stores that Tom originally planned to open.

By using franchising, Tom expanded Domino's Pizza stores around the world, creating the world's first pizza delivery company. He retired in 1998, giving the majority of the \$1 billion he made through the sale of Domino's to charity. Tom always encouraged his franchisees to give something back to the communities in which they operate. This is still an important part of the business's culture.

In the United States of America, pizza is a \$35 billion a year industry. There are over 69 000 pizzerias in the US, with 3 billion pizzas being sold each year which amounts to approximately 350 slices of pizza per second. The average American eats 46 slices of pizza a year. In the US, Domino's delivered over 400 million pizzas in 2011, just over one pizza per US citizen; their delivery people drove more than 10 million miles every week.

DOMINO'S PIZZA'S MISSION, CULTURE, PRIORITIES AND VALUES

Domino's Pizza's mission is to be the best pizza delivery company in the world. The culture is best summed up in a chant that's sung in its stores: "Sell More Pizza, Have More Fun!".

They state that their priorities are to:

- recruit, recognise and retain the best people
- deliver consistently high quality food on time
- take great care of our customers
- innovate in ways that matter to our team members and customers
- ensure high image standards at our stores
- treat others how we'd like to be treated
- take time out to enjoy ourselves

Their values are as follows:

At Domino's Pizza, we are *Driven to Deliver* the best products to our customers in the quickest time it is safe to do so. We do this through four underpinning values:

- Passionate about winning – being the best by being better than you were yesterday
- Passionate about service – knowing who your customers are and beating their expectations
- Passionate about quality – getting it right every time
- Passionate about relationships – treating people with respect and how you would want to be treated yourself

DOMINO'S PIZZA WORLDWIDE

Worldwide Total Franchisees	2 000+
Worldwide Total Franchised Outlets	9 350+
Countries	70+
Worldwide Total Employees	175 000

Domino's Pizza International, Inc. began serving consumers outside the US in 1983 when the first store opened in Winnipeg, Canada. Since that time, Domino's Pizza International has extended its global reach to include more than 70 countries.

The company claims that the success of the business outside the US is due to the relationship between the franchisees and the corporate team that supports them. Together, they continuously strive to support a policy of "One Brand – One System" in order to be the best pizza delivery company in the world.

This dedication to a single brand and a single system ensures that the same core strategy is followed wherever Domino's Pizza operates.

- They build their brand through the consistent use of their registered trademarks and by giving the same level of service to all of their customers.
- They have standard store layouts, training programmes and operational evaluations.
- They maintain high standards through the use of the same core products, quality control systems, and a supplier approval process.

Nonetheless, Domino's Pizza International recognises the need for some adaptation in order to address the cultural and societal differences encountered in each individual market. With over 20 years of experience operating outside the US, its team is very skilled at adjusting its products and systems for local tastes and preferences. For example, in India, Domino's has respected the Hindu reverence for the cow by omitting pepperoni, the beef-based topping, and replacing it with spicy chicken sausage. In Saudi Arabia, stores must work around four prayer times a day, each lasting for 12-45 minutes. During prayer times, all businesses close.

Domino's needs to cater for local tastes; for example, in Jamaica the favoured island topping is pineapple. Also there may be other local problems: in Aruba the franchisee initially purchased motorcycles as delivery vehicles but was forced to switch to small trucks due to the strong wind, and in the Netherlands delivery scooters are not allowed on the roads and have to use designated bike routes, which are often quicker than travel on the roadways. When Domino's opened its first store in Japan in 1985, there was not a word in the Japanese language for pepperoni. Now pepperoni is one of the country's favourite toppings. In Japan, buildings are not numbered sequentially but numbered in the order buildings were built. This makes for interesting delivery and training of delivery drivers.

DOMINO'S PIZZA IN THE UNITED KINGDOM AND IRELAND

Domino's Pizza opened its first franchise in the UK in Luton in 1985. There are currently 685 stores in the UK and the Republic of Ireland. Domino's Pizza Group (DPG) is what's known as a 'Master Franchisee'. This means that the parent company, Domino's Pizza LLC, which is based in Ann Arbor, Michigan, USA, has granted DPG exclusive rights to own, operate and franchise Domino's Pizza stores in the UK and Ireland. In turn, DPG awards the right to operate local Domino's Pizza stores to entrepreneurs (franchisees) who, once approved, have to pay a minimum of around £280 000 to own their Domino's Pizza business. Franchisees are both DPG's customers and business partners.

Domino's Pizza Group

England	543 stores
Republic of Ireland (ROI)	48 stores
Scotland	47 stores
Wales	28 stores
Northern Ireland	18 stores
Isle of Man	1 store
Mobile units	1
UK & ROI Franchisees	135
UK Total Employees	20 000+

It is DPG's job to support franchisees in their efforts to run profitable local Domino's Pizza businesses and to ensure that high brand standards are achieved at all stores. To do this, DPG employs a team of over 350 team members who work in a range of store support functions (known as commissaries) at locations in the UK and Ireland. These functions include: dough production, ingredients and equipment purchasing and supply, training, IT, marketing, public relations, finance, human resources, franchise sales, leasing, transport, warehousing and administration.



Source: <http://li.dailymail.co.uk>

DOMINO'S PIZZA AND INNOVATION

Domino's Pizza claims to have been part of innovations that have made a significant impact on the entire food-delivery industry. This includes pioneering patented insulated pizza bags to keep pizzas oven-hot and crisp during normal delivery; the creation of a sturdy, corrugated pizza box, which keeps moisture from weakening the box and cheese from sticking to the top; and the invention of the 3-D car-top sign, which is currently used by a variety of industries, including taxis and driving schools.

Domino's Pizza launched online pizza ordering in 2007, and in 2008 revolutionised the online delivery experience by launching the innovative Pizza Builder, which allowed customers to see their pizza come alive on the computer screen, and Domino's Tracker tools, which allowed them to follow the progress of the order from the time that it's placed until they receive it.

During 2011, Domino's launched two new apps – one for the iPad and one for the Android platform. As online sales grow, the percentage of those sales taken over a mobile device continues to grow too and accounted for 14% of online sales during the last quarter of the year. Online sales continued to rise, hitting a peak of over £1.26 million in December, 2011. In 2012 the company launched an app for the Windows 7 platform and improved the website with new functionality such as a Meal Deal wizard to help consumers ensure they are getting the best value for money on their orders. It also continued to build on its social media presence with new offers for Facebook fans and Twitter followers in the UK and the Republic of Ireland.

Domino's Pizza continues to develop its product portfolio. Recent additions in the UK and Ireland include the Domino's Stuffed Crust and a new gourmet range of pizzas. The Stuffed Crust, using Domino's classic dough, has been well received by Domino's fans across the UK. It was supported by the irreverent "Get Stuffed" advertising campaign. The marketing activity included advertising on the sides of buses, which was named Outdoor Campaign of the Month by Marketing magazine. The gourmet range initially comprised four pizzas – Rustica, Florentine, Firenze and Quattro Formaggio; the range uses traditional Domino's dough, but stretched out to form an Italian style, thinner base. The toppings include some flavours new to the Domino's range such as feta cheese, baby spinach, salami and baby plum tomatoes.

DOMINO'S PIZZA GROWS FAT ON UK'S TASTE FOR AUSTERITY

The chief executive of Domino's Pizza UK and Ireland, Chris Moore, believes timing is everything in a market boosted by the population's newfound desire to eat at home. There is no room for stragglers in the pizza kitchen. Every moment counts. He believes that split-second timing is the very essence of the business's remarkable success in catering for Britain's seemingly insatiable appetite for stay-at-home comfort food.

"The quicker you deliver a pizza, the quicker the customer comes back. Our 'out of the oven' time has gone from 17 minutes in 2005 to 13 minutes in 2010. That creates a degree of customer loyalty our competitors find hard to match."

The recession has been good for pizza deliveries: some customers are trading down from meals out. "We've gained people who used to go out to restaurants. They might have gone somewhere like Pizza Express in the past where, if you go as a family, you might spend £70 or £80 with a bottle of wine."

Less affluent customers, meanwhile, have been attracted by a successful nationwide "two for Tuesday" offer providing a pair of pizzas for the price of one. Bans on smoking in pubs and restaurants have been handy too. "People can do whatever they want at home and it'll probably be considerably cheaper."

Domino's operates on an entrepreneurial basis. Its stores are operated by independent franchisees who pay a 5.5% royalty on their sales to Domino's UK head office, which hands on half of this money to the brand's ultimate owner in the US. Stores buy most of their food from a Domino's commissary in Milton Keynes – although they're free to shop elsewhere if they choose. They choose the pizzas they offer from a central long-list. Towns heavy on vegetarians can offer more non-meat options, and coastal areas can go big on seafood toppings.

The average branch makes an annual profit of £100 000. That's far more profitable than, say, a typical pub, which might make £30 000 a year.

"When we started, in 1985, very few people got anything delivered to their homes. The public were initially sceptical about whether fresh food could truly be prepared and delivered within half an hour. We had to convince people that it wasn't a frozen supermarket pizza that we'd bunged in a bag and delivered."

Initially, almost all Domino's customers were under 35. They have stayed loyal over the years and been joined by a new generation. Domino's says its customer base now stretches from ages 18 to 55. Phone orders are gradually being replaced by those placed on the internet and smartphones, which account for 36% of sales.

"Domino's Pizza is brilliantly marketing-led," says Hugh-Guy Lorriman, an analyst at stockbroker Seymour Pierce, who believes the chain's sponsorship deals with television shows, such as *The Simpsons* and *Britain's Got Talent*, have been shrewd initiatives.

Moore reckons the chain has much further to go – the average UK customer orders once every 35 days, compared to every 17 in the US. He wants to build the network to 1200 outlets in Britain and Ireland. "It's still a very immature market," says Moore, who is fond of quoting the company's American founder, Tom Monaghan: "Up to 30 minutes, people are hungry. After 30 minutes, they're angry."

Adapted from The Observer, 9 January 2011

DOMINO'S PIZZA GROUP FINANCIAL ACCOUNTS

Profit and Loss Accounts for the year ended 25 December

	2011 £m	2010 £m
Revenue	210	189
<i>Less</i> Cost of Sales	133	117
Gross Profit	77	72
<i>Less</i> Expenses		
Distribution Costs	13	12
Administrative Costs	25	24
Net (operating) Profit	39	36

Balance Sheets at 25 December

	2011 £m	2010 £m
Fixed (non-current) Assets	99	81
Current Assets		
Stock	4	5
Debtors	24	16
Bank & Cash	24	31
Other	2	2
Total Current Assets	54	54
Current Liabilities		
Creditors	29	32
Overdraft	26	2
Other	7	6
Total Current Liabilities	62	40
Long-term (non-current) Liabilities		
Loans	19	42
Other	12	11
Total Long-term Liabilities	31	53
Net Assets	60	42
Total Shareholders' Capital	60	42

Source: www.northcote.co.uk

1. Explain the ways in which Domino's Pizza has used innovation and new technology in order to increase its appeal to customers. [8]

2. Explain the implications, to the various stakeholders of Domino's Pizza, of its mission, culture, priorities and values. [12]

3. Analyse and evaluate the financial performance of Domino's Pizza Group. [14]

4. Assess the benefits to Domino's Pizza of expanding its business through franchising. [12]

5. Discuss the view that the social benefits of multinational corporations, such as Domino's Pizza, outweigh the social costs. [14]