

PIZZA HUT MALAYSIA

A CASE STUDY OF THE OPERATIONS OF A MULTINATIONAL ENTERPRISE IN MULTI-CULTURAL MARKET

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THE legacy of Pizza Hut® began in 1958, when two college students from Wichita, Kansas, Frank and Dan Carney, were approached by a family friend with the idea of opening a pizza parlor. Although the concept was relatively new to many Americans at that time, the brothers quickly saw the potential of this new enterprise.

After borrowing \$600 from their mother, they purchased some second-hand equipment and rented a small building on a busy intersection in their home town. The result of their entrepreneurial efforts was the first Pizza Hut® restaurant, and the foundation for what would become the largest and most successful pizza restaurant in the world.

Over the past four decades they built a reputation for excellence that has earned them the respect of consumers and industry experts alike. Their products have been voted Number One in countless consumer surveys nationwide. And their accomplishments as an innovative business leader have been cited by such respected publications as *Restaurant Business*, *Fortune* and *The Wall Street Journal*.

Pizza Hut®, a division of Tricon Global Restaurants, Inc., has more than 7,200 units in the U.S. and 3,000 units in more than 86 other countries.

What did it take to build a successful business of that magnitude? It took hard work, to be sure. And it took a commitment to quality and a dedication to service and value. But perhaps as much as anything, it took the qualities of entrepreneurship, growth and leadership which have characterized business through nearly four decades of success.

The case looks into some of the management practices of the company. The case has been prepared as a case study for class discussion rather than to illustrate effective or ineffective handling of management issues.

Pizza Hut Facts

- ∞ Pizza Hut is the world's largest pizza restaurant chain, with nearly 12,000 restaurants, delivery-carry out units and kiosks in more than 86 countries. It employs more than 240,000 people worldwide.
 - ∞ Pizza Hut serves more than 1.7 million pizzas every day, to approximately 4 million customers worldwide.
 - ∞ Pizza Hut delivers from more than 5,300 locations across the U.S.
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- ✂ Pizza Hut uses 2.5 percent of all the milk (over 3.2 billion pounds) produced in the U.S. every year for cheese. That cheese production requires a herd of 250,000 dairy cows producing at full capacity 365 days a year.
- ✂ Pizza Hut uses more than 360 million pounds of REAL cheese per year, of that, 335 million pounds is mozzarella cheese.
- ✂ Stuffed Crust Pizza used approximately 50% of the 35 million pounds of string cheese produced in the U.S. in 1995.
- ✂ Pizza Hut uses more than 700 million pounds of flour each year, representing the annual yield from nearly 500,000 acres of wheat.
- ✂ It takes more than 3.6 million heads of animals to supply the annual meat needs of Pizza Hut.
- ✂ Pizza Hut uses more than the equivalent of 525 million pounds of tomatoes each year.
- ✂ Pizza Hut uses 50 million pounds of pepperoni per year. If you lay those pepperoni slices side by side, they would create a path that would stretch around the world twice and go to the moon!
- ✂ In the U.S., Pizza Hut's "top five" toppings are old favorites of Americans: Pepperoni, Beef Topping, Italian Sausage, Mushrooms, Green Pepper
- ✂ Americans eat approximately 100 acres of pizza everyday.
- ✂ There are 4.2 billion pizza purchases made every year, which equates to 11.5 million purchases every day. Half of these purchases are done on Friday and Saturday.
- ✂ Americans purchase more than \$18 billion of fresh pizza every year. If you add frozen and deli pizzas, the figure climbs to \$25 billion a year.
- ✂ According to a Gallup Poll, 82 percent of kids of age group three to eleven prefer pizza over chicken nuggets, hot-dogs, macaroni and cheese, and hamburgers.
- ✂ A national survey commissioned by Pizza Hut revealed that 18-29 year-old males preferred pizza to ice cream, cookies and candy when indulging their palates and nearly one-third of those surveyed rank pizzas as their favorite indulgence food over cookie, cake and candy.
- ✂ Pizza is a \$30 billion per year industry. Approximately 3 billion pizzas are sold in the U.S. annually through 61,269 pizzerias. Each man, woman and child in America eats an average of 46 slices (23 pounds) of pizza a year. Pepperoni is America's favorite topping (36% of all pizza orders); approximately 251,770,000 pounds are consumed each year.

Pizza Hut's Original Business Spirit and Philosophy

How did Pizza Hut build such a big successful business described above? The legacy of Pizza Hut began in 1958, when two college students from Wichita, Kansas, Frank and Dan Carney, were approached by a family friend with the idea of opening a pizza parlor. Although the concept was relatively new to many Americans at that time, the brothers quickly saw the potential of this new enterprise.

After borrowing \$600 from their mother, they purchased some second-hand equipment and rented a small building on a busy intersection in their home town. The result of their entrepreneurial efforts was the first Pizza Hut restaurant, and the foundation for what would become the largest and most successful pizza restaurant in the world.

Over the past four decades they built a reputation for excellence that has earned them the respect of consumers and industry experts alike. Their products have been voted Number One in countless consumer surveys nationwide. And their accomplishments as an innovative business leader have been cited by such respected publications as *Restaurant Business*, *Fortune* and *The Wall Street Journal*. The innovative approach of the company got amply reflected when it launched space advertising on 11th July 2000. As the living quarters for the International Space Station were thrust into orbit on 11th July, the world of advertising was also thrust into a new frontier. Emblazoned on one side of the Proton rocket sending the Zvezda module to the space station was a 30-foot-tall Pizza Hut logo. While the marketing ploy burned up minutes into the flight, as the rocket's first stage separated, its impact will be long-lasting. As the rocket sat on its launch pad in Kazakhstan on Tuesday, the Pizza Hut logo was clearly visible between rows of rocket scaffolding. The company believed that as many as 500 million people had seen it.

"This is great fun," said Pizza Hut spokesperson Jeff Fox. "It's not very often that you get to play around like did in your back yard, shooting rockets up into the air." The deal was part of a larger marketing strategy by Pizza Hut to gain brand awareness for its new corporate logo, revealed last year. "What better way to make sure everyone in the world knows about it than to be on a rocket sent into space," Fox said (Bob 2000).

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Pizza Hut franchisees, for example, exemplify the entrepreneurial spirit which launched the system back in 1958. Through their interest and initiative, the Pizza Hut system was able to develop new territories both in the United States and overseas.

Tricon is the parent company to two other segment leaders, Taco Bell and KFC. When combined with Pizza Hut, these organizations make up the world's largest restaurant group, with almost twice as many units as McDonald's.

When it comes to leadership their proactive approach to product development and marketing provides ample evidence of their abilities. Beginning with the original thin crust pizza first served in 1958, Pizza Hut has made continuing efforts to refine products, and to develop new products suited to every consumer taste.

Today, five major products, Pan Pizza, Thin 'N Crispy pizza, Hand-Tossed style pizza, Stuffed Crust Pizza and The Big New Yorker Pizza are loved by millions around the world and have become the standard by which all others are judged.

Pizza Hut's entry into Malaysian Market

Pizza Hut began its operations in Malaysia on 19th May 1982 with the opening of its first outlet at Yow Chuan Plaza, Kuala Lumpur. Cerebos, a Singapore based-company was the first owner. Cerebos had opened 29 outlets when it decided to sell the franchise to KFC Holdings Malaysia Berhad in December 1995. The number of Pizza Hut outlets since then has grown to 72 outlets today. Pizza Hut is projected to grow at a planned average rate of 10 new outlets per annum for the next 3 years.

Conduct of business

Pizza Hut is traditionally a casual dine-in restaurant. The family meal concept has proven to be popular among the Malaysians who placed importance of family ties with meals. Moreover, the dine-in restaurant concept provides a better atmosphere to develop such ties, which is a common practice of all the three major races of Malaysia.

To meet intense competition in the fast food industry, the delivery concept as a service strategy was introduced to maintain and capture market share. As the metropolitan lifestyle catches on, convenience is a priority for dual working parents who still want to dine with their children in the comfort of their home but have no time to prepare meals. Hence, the one-number call center system for pizza delivery was introduced in 1987. Pizza Hut Malaysia has recently upgraded its computerized order system to meet the expected half an hour delivery time for an order.

Pizza Hut Malaysia also caters for take-away, as some of their more popular restaurants cannot meet the walk-in capacity. This strategy allows for some diffusion of capacity limit.

The fast food self-service concept like KFC, McDonalds, A&W and MARRYBROWN seemed to draw more lunch time crowd compared with Pizza Hut's dine-in concept of catering mainly to dinner crowd. This causes a major restaurant space slug and wasted capacity due to timing difference. But then, Pizza Hut Malaysia is part of KFC and strategically, this is a niche over second generation type of restaurant practiced by Domino's Pizza (Founded in 1960, Domino's Pizza operates a network of 6,652 owned and franchised stores in the United States and 64 international markets. Domino's is the largest privately-held restaurant chain, and the eighth largest of all restaurant chains in the world). *What Pizza Hut may attempt to do is to introduce a fast food lunch package consisting of a slice of pizza, garlic bread, coleslaw/salad and a Pepsi and pricing the lunch pack equal or cheaper to the fast food counterpart to draw lunchtime crowd. Most office workers have only one hour and speed of service is key to its success. This will definitely increase sales turnover and eventually proliferate the pizza eating culture in Malaysia.*

Pizza Hut Malaysia launched its first second-generation compact, no-frill restaurant in Mentakab, Pahang in 1989. This is a pilot project to cater to smaller towns and secondary urban areas that has potential to develop but with low population density. This is Pizza Hut's long term strategy to outreach those areas where competition is low and where people have ample time to dine at the pace they like. City folks are always 'rushing' and Pizza Hut seemed to be able to serve them better only over the weekend. Consistent to this assumption, the rural and secondary urban outreach program may have the potential for development if Pizza Hut Malaysia continues to emulate the pilot project in Mentakab.

Corporate Focus and Culture

Keeping brand developed to the height of excellence is always first at Pizza Hut. The "Red Roof" is symbolic to achieving this goal. The vision epitomizes stringent adherence to restaurant excellence for consistently achieving people skills, customers' satisfaction through constant market development, and innovative food variety, taste and quality to achieve product excellence.

The Founding Truths below are the fundamental to Pizza Hut's success...

People capability first - Satisfied customers and profitability follow.

Respond to the voice of the Customer - Don't just listen, act on their needs!

The RGM is our #1 leader - The Restaurant General Manager is the closest link to the customer. The success of our franchised business depends on the skills, expertise, and enthusiasm of the restaurant teams.



Mission statements

- ∞ Pizza Hut Malaysia strives to continually develop and innovate new and existing pizza for variety, taste and value in the food industry;
- ∞ Provide opportunity for the personal and professional growth and development of all staff by forging excellence through talented people;
- ∞ Continue to deliver customer satisfaction through Quick Service Restaurant Operators;
- ∞ Increase market share and return on investment of the shareholders.

Culture

According to company sources, Pizza Hut Malaysia will strive to inculcate the culture of work success as follows:

Run each restaurant like it is the only one left - Avoid the trap of averages and concentrate on making each individual restaurant the place customers enjoy and want to return to.

Recognition shows you care - Recognize excellence at every level of the business. Staffs perform best when their efforts are recognized, and that appreciation is the glue that holds them together.

Marketing innovation and great operations drive sales - It's a team effort - operations excellence, supported by world class marketing, win in the marketplace.

Quality in everything that needs to be done - This is especially true where food business is concerned. It's what our customers crave.

Restaurant owners and Franchisees are vital assets - The customers do not care who owns or operates any particular restaurant. That is why striving to operate as "one system" and recognizing the operators as a key ingredient is critical to success.

Organizational Structure

Pizza Hut Malaysia employs a centralized top management at the strategic level that deals with suppliers, franchising terms and business planning. However, at the operational level, a decentralized style is adopted where the restaurant managers and operators are empowered to carry out the duties and responsibilities of providing high standards of service, product quality and cleanliness of the outlet as the major challenge of the job.

Between these two levels are a team of managerial integrators who travel widely to the outlets countrywide to ensure policies and operational procedures of up-keeping the outlets are adhered to. This team provides the relevant support to ensure launches of new recipes and sales promotions are carried out smoothly nationwide simultaneously. Pizza Hut Malaysia achieves this by *Forging Excellence Through talented People*.

Training takes precedence where staff management is concerned. Excellent service and product innovation came as a result of training and sharing the invaluable experience of teaching and learning culture practiced in all Pizza Hut outlets. As a result, Pizza Hut Malaysia organizes an Annual Championship Competition to develop teamwork for each outlet as they aspire to achieve the excellence standards expected in terms of hygiene, accuracy and speed of order processing, general dining area cleanliness, hospitality and acceptable food quality. Normally a team of experienced staff undertake the task of showing and putting to practice the work agenda designed for the training of new recruits.

Pizza Hut's thrust on its human resources can be understood by the following remarks of its top management:

According to *Gregg Dedrick, Executive VP, People And Shared Services*: One of our "Founding Truths" and one of our key strategies is putting people capability first. This means we must support our employees by giving them the tools they need to be successful and then reward and recognize them for that success. We all know when we do that, satisfied customers and profits follow. Why is that? Because the restaurant industry is a highly people-driven business - one where success with the customer depends on enthusiastic, well-trained, service-driven teams. So our challenge is not only to attract great people, but also to retain and motivate them, particularly in our restaurants. To do that, we're creating a unique work environment where everyone counts and knows they make a difference. In fact, our goal is to build an ownership and recognition culture that drives the best results in the industry. How are we doing this? First, by encouraging everyone to think and act like owners and be accountable as owners, too. That means understanding how our actions and ideas have an impact with customers and on the bottom line. The message is "own your teams, own your customers and own your results," and given our success with driving margins and increasing customer satisfaction, it's a message that's paying off. Second, we're making recognition a key part of our operation. Recognition shows you care and, in this demanding quick-service business, if you don't care, people leave. So every day we celebrate the achievements of our people, which builds commitment and puts energized, motivated teams on the frontline serving our customers.

We bring our unique culture to life in a number of ways. For example, we established our YUM Leadership program, where franchise and company leaders gather with David Novak to learn how to lead and build teams with a common agenda. We've also begun cascading our core values of accountability, excellence and teamwork - what we call our How We Work Together principles - throughout our entire system. We then get feedback on our progress. We launched the "Founders Survey," an annual survey that tells us how we're running the business. In fact, our 1999 survey scores were great: we registered extremely high levels of employee commitment around the globe. Our people have pride in their jobs, their company and they're staying with us. We rated especially

well with our RGMS, who showed great enthusiasm for serving our customers and for teaming with their fellow RGMS to share best practices. We held our first-ever RGM meetings for Pizza Hut, our first-ever systemwide (company and franchise) meetings for Taco Bell and also our first-ever international RGM summits in Asia and London.

According to *Aylwin Lewis: Executive VP, Operations And New Business Development*: Best practice sharing is a key element of the way we do business. One of our primary challenges is to formalize best-practice sharing across the globe and to learn from both inside and outside of the company. Recently, we've looked outside of the company and benchmarked some of the most successful businesses in the U.S. to learn from them and are incorporating those learnings into our business.

Internally, our greatest success story to date with best practice sharing is demonstrated through C.H.A.M.P.S. - which stands for Cleanliness, Hospitality, Accuracy, Maintenance, Product Quality and Speed. C.H.A.M.P.S. is our umbrella operations program for training, measuring and rewarding our employees performance against customer standards. Not too long ago, we were a restaurant system with three great brands but many different procedures and training manuals. So we went to work to weed out redundancies, leverage learnings and create a uniform approach for everything from the way we train our people to how we cook our food. The goal was, and still is, to ensure that our customers receive the same level of superior service and food quality at all of our restaurants.

The results have been great! The combination of our C.H.A.M.P.S. standards library, our Developing Champions training initiative, our CHAMPS Check mystery shops and other C.H.A.M.P.S. programs is paying terrific dividends, namely charged-up, customer-focused teams and dynamite sales - as well as improved operations. And though C.H.A.M.P.S. started out at our international business, TRI, we've since spread it across the entire system - first to KFC then to Taco Bell, and we recently rolled it out to Pizza Hut last year. And what's more, our restaurant teams love it!

We know that there's no substitute for experience in our people - and C.H.A.M.P.S. is a great catalyst for that. We're executing process and discipline around what really matters, gaining the valued input of our franchisees and driving results that impact both our people and our profits. That's the power of a unique ownership and recognition culture at work. What could be better?

Environmental Analysis

During the year of 1997 and 1998, Pizza Hut Malaysia faced operational losses during the economic crisis. With improving economic conditions, Pizza Hut operations are recording very strong sales growth. It was expected that sales and operating profits would increase by 35% and 28% (The STAR 2000) respectively for the year 2000.

"Pizza Hut's contribution to group sales (KFC) rose to 11% in 1999 from 7.4% in 1996, and it is believed that this division will provide the next growth phase. We can see its profits and sales levelling that of KFC's once the critical mass of customers and outlets is achieved", said Huang of K&N Kenanga. The impressive performance was due to the company's strategy to increase market share via new products and improved delivery services.

Pizza Hut Malaysia has also pre-empted moves of its competitors by increasing more outlets at high traffic areas or moved existing ones to better locations as evidenced by the increasing numbers of customers visiting the outlets. Pizza Hut Malaysia has become the dine-in restaurant leader using a focus and growth strategy by concentrating concentrically their core line business and intensifying location coverage to reach out to where the customers are, especially more concentration in the Klang Valley and the southern states of Johore.

Pizza Hut Malaysia is of the opinion, unlike Singapore where the majority of its teenage group is more inclined towards the 'hamburger craze', Malaysian youth are quite ready to accept dough and pasta style food; like a quarter piece of pizza with a Pepsi. This is also evident by the fact that more and more bakery outlets like Kings confectionery, Medi-ya Bakery and the many Delis, are being established to cater such meal types. The idea of a light and warm crust based lunch is catching up in Malaysia. Efforts are being made to develop such culture through sponsorship programs with the STAR - NIE, Passport to Reward campaign, Read for Reward campaign, Design for Reward campaign, the latest "Have a Heart Contest" and Baker's Street promotions. This is to target to the students and the office workers market segment.

Society's affluence, increasing standard of living coupled with rise in disposable income have also contributed towards more lifestyle-dining behavior. With increasing expectation on air-con comfort, ambience and clean eating environment, Pizza Hut Malaysia's concept of fusion meals and Family Value Meal package, teenagers and families in groups are more and more attracted towards a healthier, more complete and fairly priced meal compared to just fast food meals. In fact, pizza is regarded as an up-market complete meal and also the healthiest of all fast food in terms of food value and dietary requirement.

Distinctive Competencies Analysis

Innovations

The knowledge of pizza making to "Malaysianize" pizza results in the fusion meal concept. Satay Pizza introduced in August 1999 received tremendous response catering to the local taste buds. This is in line with Pizza Hut's mission of providing new and innovative varieties in pizza taste and style. Spicier pizza versions fit the eating culture in Malaysia. The current Rendang Pizza promotion is claiming the same kind of response. When and where food is concerned, Malaysians are an adventurous lot.

The sales growth was also attributed to the introduction of new product innovations such as the *Stuffed Crust Pizza* although it shared its popularity with the proven and accepted Pan Pizza. The *Stuffed Crust Pizza* currently makes up 50% of sales for Pizza Hut.

However, Pizza Hut Malaysia has yet to resolve take-away and delivered meals. The most probable reason why Pizza Hut stuck to the dine-in concept was that pizza is best when eaten hot and crispy. Although, the delivery service is said to be excellent, pizza always tastes better at where they are served. Pizza Hut Malaysia must acquire the technology of delivering warm and crispy pizza on arrival. Until this is resolved, Pizza Hut must still rely on customers who are willing to drive out of their homes to the nearest outlet. The same goes to take-away meals that get soggy at their destination.

Value added services

Pizza Hut Malaysia has recently upgraded its computer ordering process to provide true customer value through reduced cycle time. When home delivery was first introduced in Malaysia (an innovation then), customers had to determine which Pizza Hut was closest, find the telephone number, call the order in, and wait for delivery. To meet customer demands for a better system, Pizza Hut developed an IT-based ordering system with a single toll-free number for the Kuala Lumpur metropolitan area. After an order is placed through the centralized service center, it is transmitted to the Pizza Hut unit nearest to the customer with delivery promised in 30 minutes.

The system not only transmits the order but also automatically checks credit information and provides road-map grid coordinates. Further, Pizza Hut Malaysia maintains a customer

database that allows the order taker to quickly identify each customer, his or her location, and the customer's favorite toppings, reduce cycle time while allowing for up-selling. This database is also used for mailing of promotional coupons as well as for inventory control and marketing analysis. You would be surprised if you have asked children and adult alike if they knew the Pizza Hut Malaysia's toll-free number, they can recall it without fail, a triumph of marketing that enhances customer value. Better delivery services through the new computerized order system provided the value-added service for customer convenience.

While this system has been the competitive advantage of Domino's Pizza, this new upgrading at Pizza Hut Malaysia will put pressure on Domino's to come out with other value-added service to outdo Pizza Hut's increased efficiency. Nevertheless it was reported that Domino's in the US has come out with a device to keep pizza warm and crisp after delivery. Pizza Hut Malaysia may have to emulate to do the same or better, should Domino's Pizza Malaysia adopt the system to compete and maintain the delivery niche.

Receptive growing population

Of the RM100 mil sales in 1999 for Pizza Hut Malaysia, about half the sales were done on Fridays and Saturdays. This indicated a market trend of family eating out during weekends and the popularization of pizza consumption amongst the Gen-X clusters. Moreover, dine-in at quick service restaurants located within air-conditioned shopping centers provides more personalization of customer services compared to the self-service type. Youth today demands value for their money spent and the service to be derived.

However, Pizza Hut Malaysia must still address the problem of low traffic during weekdays especially during lunch hours. *They should employ a fast food package meal as described earlier to counter the slag restaurant space in terms of rental and optimizing other resources that already constitute direct overheads like labor and electricity.*

In line with the Visit Malaysia Tourism Promotion, demand for pizzas also saw increasing trends amongst expatriate residents, business visitors and tourists. As tourists and foreigners are not quite accustomed to our spicy local fare, Pizza Hut Malaysia can do a lot to tap into this lucrative opportunistic market. There are exceptional areas like the Putra World trade Center, Jalan Ampang and Langkawi Island where there is constant concentration of foreign tourists and expatriates who are also regular consumers of pizza. It was a positive sight to see KFC and Pizza Hut as the recent sponsor of the Thomas and Uber Cup 2000 badminton games at the Bukit Jalil Stadium, Commonwealth Games Village in Kuala Lumpur. International visitors and players to the games were exposed to the "Red Roof" symbol.

Growing new townships

The GAINS Report 2000 (USDA 2000) projected an estimated growth of fast food of between 20% and 30% per annum over the next three years. According to trade sources in the report, more outlets will open to cater to the growing demands for convenience in eating out. Most of these outlets are likely to be located along the North-South highway and in new townships located off the highway, particularly in the states of Penang, Selangor, Negeri Sembilan, Melaka and Johor. It was noted that KFC Holdings Malaysia Berhad, who owned Pizza Hut has target these as potential growth areas and opportunities in servicing the needs of residents in new townships where demands for self-service and dine-in fast food exist amongst school children and young adults.

Meanwhile, McDonalds is also the other contender for rights to the Rest and Service Areas of the North South Highway. It would be a head on straight fight between these two players before we see who has the edge over the other.

Local food galore and taste

Trade sources in the GAINS report also commented that the full service restaurants and the hawker stalls remain the most popular places to eat for most Malaysians. Fast food restaurant have increased in popularity over the years, mainly with the younger population as they find such places informal yet clean which offer tasty fast food at affordable prices.

Yet habit sometimes die-hard. Variety, choice, taste and price remained the major determining factor catering to the myriad eating needs of the various categories of Malaysian customers. In any case, the older generation still perceives Pizza Hut's offerings as expensive without realizing that Pizza Hut uses the best and freshest ingredients in their preparation and making of pizza. It is a known fact that the dough is prepared fresh daily and the toppings are replenished daily with generous dashes of mozzarella cheese. Some form of information may be useful to induce adult learning.

Culturally, each race provides it specialty of assorted and diversified food and will remain deeply embedded in the eating habits of the ethnic Malaysians for yet a while. Pizza Hut Malaysia must make inroads through constant long-term media strategy to win them over.

High cost of operations

High initial setup cost for quick service restaurants will have initial setbacks for widespread opening of outlets to all areas. The minimum requirement to operate such outlet should at least, first cover its cost of operations due to high rentals and running costs. As such, suitable location and customer traffic is mainly confined to shopping complexes for setting up of outlets. This will definitely limit the spread of customer reach.

Conversely, Domino's Pizza has concentrated on the strategy of home delivery to reduce incurrence of such overheads. Shakey's Pizza only opens in areas of certain customer traffic. But Pizza Hut Malaysia is more ambitious of creating a chain network as its core strategy with its inherent greater risks.

Substitutes and Price competition

Domino's, Shakey's and sole-proprietor's specialty restaurants serving pizzas remained possible substitutes and are players that still command price leadership. Pizza Hut only has the niche for customers who appreciate dine-in convenience and comfort. It is deemed that Pizza Hut Malaysia must employ full absorption costing to just the dine-in restaurant concept. Yet on the other hand, could volume consumption increase substantially if Pizza Hut Malaysia employs the price leadership strategy?

Competitive Advantages Analysis

Barrier to entry

The Quick Service Restaurant setup for pizza entails a high cost and investment consideration. Pizza Hut Malaysia being a subsidiary of KFC Holdings Malaysia Berhad had the backup of financial resources to grow compared to new comers. Moreover, with the dine-in concept and new product innovations like "stuffed crust", Pizza Hut is very differentiated from its nearest competitor, Domino's Pizza. Shakey's Pizza will find it hard to duplicate the efforts of Pizza Hut due to limited financial resources. An operation of such business structure will definitely require a company that has the advantage of investing funds availability. The public listed KFC Holdings and the improving performance shown above will definitely put Pizza Hut Malaysia in a better position to compete with the others by this fact.

Besides Shakey's Pizza, who also employed the dine-in concept, all other operators are using the 2nd generation restaurant to keep overheads low but lack the ambience for a full-fledge restaurant. Contemporary customers look for added value and Shakey's Pizza will find it hard to increase more full restaurants due to lack of funds.

Only Pizza Hut provides the full-service "dine in, take away and delivery services" to take advantage of broadband distribution channel to ensure customers' services are not compromised. Others are operating in the area that they have the niche. Domino's Pizza concentrated on home delivery. Shakey's Pizza does not do home-delivery.

It is estimated an average of RM700, 000 is required to set up a standard dine-in restaurant. If Pizza Hut Malaysia makes a 'bad' decision on location and customer traffic, switching cost would be costly as the cost of renovation are sunk costs of investment. In this respect, Pizza Hut Malaysia will suffer greatly if decision taken to locate a suitable place took a turn for the worse.

Intensity of Rivalry

Competition is intense for fast food business. Pizza Hut Malaysia seeks its niche in full-service dine-in restaurant compared to others. However, unless the food is generally accepted, these infrastructures are meaningless to the customers who want good taste, high quality and reasonably priced pizza. With a bigger projection for the pizza share of a growing 'pie', there will be a surge of new players. Pizza Hut Malaysia must increase productivity or lower cost and innovate continually to maintain its current No. 1 position.

With better disposable income projected in the next three years, new entrants or existing competitors will intensify concentration to capture the growing market share. What combination of sales strategies to employ in order to rake in the desired market share is the "million-dollar question" each competing company must now address? Should the strategy be differentiation by niche or price-leadership by volume sales?

Power of Buyers

This is a definite area of sensitivity, as customers will definitely go for service differentiation and product personalization. However, none of the players have to-date used product personalization effectively although Pizza Hut Malaysia allowed 2 choices of toppings on the same pizza called "Splitzza". There should be "more options available" in order to kill the option available to go to the competitors. Pizza Hut Malaysia should innovate to provide such options more creatively.

This area of changing customer needs augurs well for all producers of pizza. Pizzas are no more propriety to the Italians. The food is widely accepted by all Malaysian as the West has accepted it. The universality can only further be differentiated by developing original well-received recipes of pizza, like what Pizza Hut did to the fusion meals.

Still, the younger generations will be automatically influenced into the pizza eating culture as most cinema shows feature the pizza delivery boy when food scenes are shown. Meeting the younger Malaysian's changing needs, will determine the capture of market share. "Impress the young mind and you will hold the future in your hands". Introducing the pizza culture has shown good degree of success to-date. Pizza Huts participation in the STAR-NIE (Newspaper in Education) was targeted to provide information necessary to leave lasting impressions towards developing the pizza culture for the future.

Power of Suppliers

Tricon Restaurants International, the franchiser of Pizza Hut, will continue to see the strategic alliance more important than KFC Holdings, as much of the businesses conducted in Malaysia are politically linked and more so because the local counterpart is also a public-listed company. The loss of the franchise will constitute a bigger loss to Tricon than to KFC Holdings, who is deemed to hold the 'reins' as long as Tricon sees Malaysia as an important market. It is also unlikely Tricon will forward integrate as the local business licensing board has a major say on Tricon's ability to do so.

Threat of substitute product or services

Pizza is pizza and unless a consumer consciously chooses not to eat pizza, the threat of substitute is irrelevant. The decision to substitute pizza in lieu of other nature of food is quite dependent on the price reasonableness of substitute food and price fluctuation of imported supplies related to pizza making, e.g. mozzarella cheese. Unless price has gone unreasonably high, threat of substitute is unlikely, as pizza lovers will still continue to consume them.

Plans to meet future challenges in the Malaysian context

Pizza Hut Malaysia must continually make progress in establishing product consistency while offering menu variety to satisfy local tastes. Even though their product offerings may vary by country, the pizzas served must be made with the same high quality standards expected from Pizza Hut worldwide.

The pizza business, like all other international business, operated in a difficult and diverse world economic climate, generally in Asia and particularly Malaysia. To compete and stay ahead of competitors, Pizza Hut Malaysia must quickly respond by developing a strategy of affordable value by offering customers new quality products at lower prices. At best Pizza Hut Malaysia must stage and pursue a business strategy of price leadership despite higher operating overheads. To do this they must increase volume sales proportionate to sustain the price leadership capability.

Pizza Hut Malaysia must also focus on their equity investments more efficiently, reducing overhead, increasing support of franchisees/operators, communicate and clarifying newly formulated concepts, and cascading into the newly forming pizza consuming culture, while setting up more new restaurants and increasing operating profits. This means new innovative ways of making in-roads into the consuming culture of the Malaysian taste and eating habits. Pizza Hut Malaysia must use concentration of product sales volume for a better return.

In managing restaurant operations, Pizza Hut Malaysia must continue to deliver the promise effectively by focusing on product quality, innovation, great service, and careful financial and asset management and by building a true restaurant culture. Customers must continue to rate Pizza Hut Malaysia highly for product quality compared to the nearest competitor. Simultaneously, Pizza Hut Malaysia must also make a determined effort to streamline operating portfolios by eliminating non-performing poor locations.

Conclusion

With George Ting, the Chief Executive Officer at the helm of KFC Holdings Berhad and improving economic conditions, both the KFC and Pizza Hut operations are recording very strong sales growth. K&N Kenanga Research, an investment analyst company revealed the future plan for Pizza Hut, "The KFC Management had indicated that they would be concentrating on growing Pizza Hut (The Star 2000)".

Pizza Hut's sales have been rising rapidly (by 20% y-y) from RM52mil recorded in 1996 when the group took over the chain to RM100mil in 1999. The group's projected revenue from pizza sales will equal KFC's once the critical mass of customers and outlets is achieved. What a way to go for Pizza Hut Malaysia!

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Appendix

KFC Holdings BHD - Financial Estimates

Rmmil	1999	2000e	2001e	2002e
Revenue	879.7	1,089	1,218	1,346
EBITDA**	100.3	148.7	170.8	186.2
Pre-tax profit	46.0	80.6	104.9	174.5
Net profit	42.7	53.1	71.5	137.2
EPS (sen)	22.4	27.9	37.6	72.1
NTA/share (RM)	1.16	1.40	1.77	2.47
<i>Note: ** Earnings before interest, taxation, depreciation & amortization NTA: Net tangible asset e: Estimates The STAR, Monday May 8 2000.</i>				

Source: K&N Kenanga Research