

Pity the Pizza, in a Land of Nuggets



Scott Olson/Getty Images

An oven at Connie's Pizza in Chicago. The cost of making pies has grown as flour prices have nearly doubled in the last year.

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IT'S a tough time to be in the restaurant business unless, of course, the food on your menu is really cheap.

You might think that [pizza](#) would fall into that category. But, as it turns out, the nation's largest pizza chains are being hammered by sluggish sales and runaway ingredient costs. It's a bad time to be in a business where two of the main ingredients are [cheese](#) and dough. Dairy and wheat prices have skyrocketed in the last year.

At [Domino's Pizza](#), sales at domestic stores are down, and David A. Brandon, the chairman and chief executive, bemoaned "the combination of unprecedented cost inflation and cautious consumer spending," in a statement on Feb. 26.

Yum Brands, the owner of Pizza Hut, has had its problems, too. Though the company, which also owns Taco Bell and Kentucky Fried Chicken, doesn't break out sales for its different chains, a company spokesman said it was experiencing the same challenges as its competitors. Same-store or comparable-store sales, those for stores open at least a year, for all of Yum's brands were flat last year.

"Restaurant margin percentage declined due to unusually high cost inflation," the company said on Feb. 4. "Nearly half of the commodity inflation occurred in the fourth quarter."

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[Papa John's International](#) has also struggled in a “difficult cost and competitive environment,” said Nigel Travis, the president and chief executive, in a statement on Feb. 26. Though same-store sales fell in the fourth quarter, Mr. Travis was looking for positives. For the year, comparable-store sales inched up 2 percent.

“We were the only national pizza chain that reported positive comp sales and domestic restaurant growth in 2007,” he said in a statement.

Most restaurants have been hit hard by rising ingredient costs, as have consumers at the grocery store. The cost of grocery store food increased about 5 percent in the last year, with nearly every type of food going up except for a few items like oranges, bacon and lettuce.

Flour prices are up 93 percent from February 2007 to February this year, and cheese jumped 25 percent, federal statistics show.

But pizza chains have more woes than high ingredient costs. They haven't figured out a way to compete with the value menus at [McDonald's](#) and Burger King, which are thriving as consumer pocketbooks become squeezed.

Even though the pizza chains are constantly offering specials, it's pretty hard to order a meal for less than \$5 — especially if it's delivered — and usually it's well over \$10 if you include drinks and extra toppings.

By contrast, a double cheeseburger, fries and a Coke can be bought for \$3 plus tax at McDonald's.

“You can't go into a Pizza Hut or Domino's and spend \$3 or \$4 and get a meal,” said Jeffrey A. Bernstein, a restaurant analyst at [Lehman Brothers](#). “It's a pretty high average check.”

Mr. Bernstein also noted that the pizza chains don't offer much that can compete against nuggets, wraps and cheeseburgers, all food that's easy to eat on the go. Eating pizza on the go, as I can attest, is a much messier proposition.

Of course, pizza chains aren't the only restaurants that are struggling because of the double whammy of higher ingredient costs and an economic downturn. Try running a diner these days when egg prices have increased 25 percent (from February 2007 to February this year), and bread has jumped 12 percent, according to the Consumer Price Index.

“The industry is in a slump, with some exceptions. Burger and sandwich places are doing reasonably well,” said Bob Goldin, executive vice president of Technomic, a food industry research and consulting firm. “Consumers are very cautious right now.”

Mr. Goldin said that pizza chains had matured after years of growth and that they faced tough competition from high-quality frozen pizzas and independent chains.

Pizza restaurants have survived previous downturns by offering a flurry of specials and discounts. But the price of ingredients is making it harder to offer deep discounts this time.

“They have less to counteract and fight back in this environment because their main two ingredients are cheese and wheat,” Mr. Bernstein noted.

That hasn’t stopped the pizza chains from trying. Pizza Hut is offering an “everyday low price” pizza for \$6.99; the price drops to \$5 each when three or more pizzas are ordered. Not to be outdone, Domino’s is offering three 10-inch pizzas with one topping for \$4 each.

The pizza promotions are a smart move, given the precarious state of the economy, but they also reflect a fundamental problem for pizza chains. They can’t offer just one cheap pizza — or a few slices and a Coke — because it doesn’t make economic sense, given the cost of delivery.

J. Patrick Doyle, president of Domino’s USA, said consumers didn’t always do the math to figure out that a \$10 pizza was actually a very good deal when split between a couple of people. That’s why he is optimistic that the \$4 pizza can compete with the value menus at fast-food chains.

Chris Fuller, a spokesman for Pizza Hut, said pizza tends to be “a community food” that is shared among friends and family. He said that \$5 was a great price for the Pizza Mia special.

“People want a pizza that tastes great, not just a great value,” Mr. Fuller said. “I would question the integrity of a \$1 pizza.”

Darryl Carr, a spokesman for Papa John’s, sniffed at the promotions, saying that his company believes that consumers will pay more for quality. “Our primary competitors have gone down that path,” he said. “From our perspectives, heavy discounts aren’t the way to go.”

We’ll see whether their various strategies work. If not, they may want to figure out a way to make pizzas out of bacon and lettuce.