Introduction to Management Case Study: Mixed Fortunes at Domino's

This case study is based on a compilation of investigative reports by Fairfax media. Names of franchisees and employees have been changed.

Domino's is an Australian pizza chain with a network of franchises and over 600 retail stores nationally. It has been hailed as a success story since it was listed on the Australian Stock Exchange in 2005. In just over a decade, Domino's shares have surged more than 2500 per cent, making it one of the best performers on the market and making a lot of people wealthy. In 2016 the company generated total revenue of $939,976,000.

Background of Domino's

Domino's has the world's biggest pizza menu with more than 200,000 options, helping boost Domino's sales to more than 90 million pizzas annually with a guarantee to deliver pizza within 15 or 20 minutes for an extra cost. Domino's business model is based on franchisees growing sales, not profit, with head office taking a royalty from every sale as Australians chomp through 1 million of its pizzas every week. Stores are bought and sold on a multiple of these sales, not on profit. The more stores in the network, means more sales are generated, which results in more profits for head office.

While the business is built on selling affordable pizza to the masses, with Group Chief Executive Officer (CEO) & Managing Director Don Meij Domino's has transformed into one of Australia's most intriguing tech companies with operations in New Zealand and Europe. Drones, cutting-edge IT, fast pizzas, happy franchisees and happy workers are all part of the Domino's image. CEO Meij "lives the job" often working undercover in the stores to keep abreast of activities at the store level. To help managers keep track of their best and worst performers, Domino's rolled out a new in-store computer system. The screens, which everyone in the store can see, constantly update statistics such as the average order size for each employee and how long it's taking to get a pizza out the door. Store managers get a quarterly bonus based on how much they improve store earnings.

Domino's selects its franchisees carefully, those who genuinely believe Domino's is a highly profitable business. However, when the store is not profitable franchisees are held to blame for bad business management. The stress of making ends meet took its toll on many franchisees who realised the business they had bought into was not viable, due to the company policies, especially on labour costs and a perception that the head office was only concerned about the welfare of people at the corporate level. Whilst Domino's profit is doubling the cost of pizzas is getting cheaper due to high competition in the fast-food sector. However, this cheap cost of pizza is borne by the franchisees who are struggling to make a decent profit due to them not being able to pass on the increasing high costs of running the stores.

Understanding the CEO

Influenced by a business-minded father, Meij said he quickly developed an entrepreneurial streak nurturing both his creative and analytical sides with a mix of arts and economics education at university. This shaped his leadership style which is focused on helping staff grow inside the business. Meij, who started his career as a pizza delivery driver in 1987, is a calculated risk taker, regularly changing Domino's business model to stay ahead of the market. "I have been in the business for 25 years and we are in our third major change of our business model,'' he says. The latest revolution is the way the company has embraced online retailing and social media.

Meij believes the only way a business can deal with challenges is to work out ways of turning a negative into a positive. For example, legislation on employee conditions has forced up Domino's labour costs 100% over the next four or five years. "But that means people are getting better paid, which means the company is holding on to its employees for longer", he says. The result: delivery times have reduced from 32 to minutes to 24. Also, there are fewer mistakes in store and staff members are more engaged.

Meij uses encouragement and training programs to engage and motivate staff. "We incentivise people through a range of systems to become better pizza makers, better dough makers, to become more skilled delivery drivers. There are training classes and we time you and you go through tests and you get different badges on your shirt and so on." Domino's staff respond to his nurturing leadership with loyalty. As a reward every year Meij takes his top team to Silicon Valley in the USA to view new technologies that could be introduced into the Domino's business.

Meij emphasises the big picture and getting managers to focus on the long term. "In some cases, you have to be a benign dictator, because it's in the better interests of the group. It's a combination of being directive on top of co-operation and bargaining and trading with interested parties in the group, from boards to franchise owners, to managers to leadership team members to business partners outside the business. You just have to go and sell your new strategy."

Meij says his managers are champions of change. But running the team, he says, means discussion, compromise and occasionally, admitting when you were wrong. "It's important to allow discussion. When you're dictating new policies, you still have to have enough allies. You can't be the lone soldier".

Worker unhappiness

The reality of life inside the Domino's Pizza chain is not what is portrayed to the general public. Many workers are unhappy due to widespread underpayment of wages, the deliberate underpayment of penalties using a delivery scam and the illegal sale of sponsorships of workers. Not always paying staff their full entitlements was found to be standard practice across many stores. Hard-working staff made few tips and often suffered abuse and danger while delivering food to strangers. He said affected workers were reluctant to speak out for fear of retribution.

It took Domino's store manager Josef Yap three years to get the courage to inform head office that his boss Del Santo, who was also one of its biggest most powerful franchisees and a member of Domino's influential Franchisee Advisory Committee, was exploiting workers. Del Santo ran 10 stores on the outskirts of Sydney. Yap was concerned when Del Santo had told him to keep labour costs below 27 per cent of sales by any means possible. It meant that in a week of bad sales, Yap was told to manipulate the store's payroll system and lower the number of staff hours worked, and reduce their pay accordingly, including his own. Every week Yap would send Del Santo's payroll reports listing employees working less than their actual hours.

Del Santo maintains he has fostered a "loving" relationship with his staff. "I am not a dictator; I just want my staff to be happy. They are not scared of me ... they are very hardworking. I love them and they love me", he said. Del Santo admitted the payroll figures didn't always match the hours recorded on internal "sales reports", but blamed his employees for the discrepancies, claiming they often clocked in early or clocked out late. He said sometimes store managers deliver pizzas and this accounted for the pay-slip differences.

But not all of Del Santo's staff agreed. Yap remembers working long hours without a break in suffocating heat, with no air conditioning working close to a 200-degree oven. "I had to bring in a fan because it was so hot." "I was so stressed all the time," he says. Yap said he worked between 50 hours and 60 hours a week but that his pay slips often showed he worked 35 hours as anything above 38 hours would attract penalties. This had the effect of denying him overtime payments for extra hours he worked. "I was told the money would be made up when we get a good day, but that didn't happen. I was very nervous and afraid working in the stores. If the sales weren't good I would be shouted at," he says. "Once I was told I 'would be put in the oven' he was so mad," he said.

Workers, owed hundreds of thousands of dollars from Domino's Pizza, are still waiting to be repaid almost two years after underpayment of staff was discovered. Domino's said many instances of underpayment were just "simple misunderstandings" but it had concerns that some franchisees were "doing the wrong thing" which was detrimental to the Domino's brand.

Franchisees

After claims of unlawful conduct by franchisees was made to head office, Domino's audited its stores and terminated four franchisees for wage fraud. The audit uncovered "a strong likelihood of unlawful and fraudulent behaviour, driven by greed", including manipulation of worker shift hours by the franchisee, breach of payroll conditions and practices, not paying overtime, not paying the correct hourly rate, as Yap had claimed, and workers breaching their visa conditions. Domino's said it has "zero tolerance" for worker exploitation and will take action against anyone caught deliberately underpaying workers.

Why were some franchisees acting like this? As competition intensified with other rival food chains, a number of franchisees describe the head office system as "dictatorial" with its ongoing demands to make record profits. Franchisees reported being very stressed losing hundreds of thousands of dollars. They weren't making money unless they were cutting costs or being subsidised by head office. Franchisees were being asked to pay more and more ongoing fees, sell $5 pizzas and make them in increasingly record times - all of which put pressure on staff and franchisees.

Franchisees looked for different ways to cut costs such as scrimping on core ingredients like flour and reusing raw ingredients that fell off unbaked pizzas. "You can only make 42 bases out of a bag of flour but we were making upwards of 50 - they were getting around 10 more pizzas out of each bag then they were supposed to," one franchisee reported.

Another franchisee says running a Domino's store almost cost her health, relationships and financial wellbeing. All employees were required to make the food, including managers and drivers. She worked at the store six days a week, clocking off at 3am some nights. "A lot of people I've known have had mental breakdowns because there is so much you have to do, and so many restraints ...," she said. Another franchisee admitted underpayment was common among Domino's franchisees. "I had my own arrangement with the staff. Some were students and I was paying their fees ... Sometimes I'd help with their rent." he said.

Yap reported Del Santo to head office shortly after he quit his job in April 2016. The long hours, poor pay, and heat exhaustion finally got to him. He never heard back from Domino's and never received back pay.