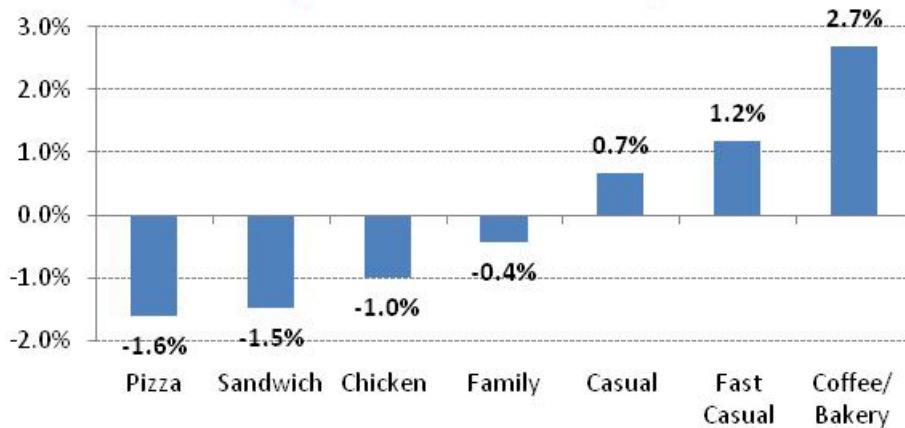


Is Pizza Becoming Extinct?

Long-term numbers reinforce what many already know – pizza is losing its pizzazz. Taking a look at the below chart reveals that the pizza segment's relative market share performance was the worst among all \$1B+ chains from 2003 to 2007. While this trend predated the mother of all recessions, there can be no doubt that America's changing pallet/wallet is having a negative impact on pizza sales.

**Change in Market Share (based on \$1B Chains
Systemwide Sales '03-'07)**



Source: RR

How do we explain pizza's shrinking market share? We will start with the most obvious point – pizza is not exactly viewed as the most healthy food alternative at a time when even our teens are now trained to read nutritional labels on the back of food packages. The hamburger chains of old managed to dodge this bullet by rolling-out chicken sandwiches to make-up for the slack. Unfortunately, the pizza chains have been slow to successfully diversify beyond pies – often hampered by their delivery only format which makes retailing new menu options ever so difficult.

Next, let's consider the value offered by pizza (or lack thereof). With cheese prices (which represent about 40% of COGS) going through the roof (with cheese CPI up +22% during 2007 and +11% YTD 11/08), it has been all too difficult for the pizza chains to compete on price. Take a large pizza for \$13 as an example: 14" in diameter is enough to feed maybe 1.5 hungry men (considering the traditional target market of 18 – 24 year old males). Contrast this with applying the same \$13 to buy 13 double cheese burgers off of McDonald's dollar menu and you can see why heavy users are filling their stomach with less pizza. Further, if you want to add a few toppings to the pizza the price of the pie can easily go to \$15+ and it just may be that many target consumers simply do not have that much cash in their pocket to buy their pizza and drinks (especially depending on gas prices).

In conclusion, we suggest that the top-end of the pizza market is moving towards healthier alternatives while the bottom-end of the market is moving towards more compelling QSR value – thus leaving pizza with a smaller piece of the overall pie. May be Little Caesars is the only one to get it right with its \$5 14" pizza with a pepperoni topping. This would explain why this pizza chain is growing units so much faster than everyone else. And for those pizza chains looking to do more at the high-end of the market: what do you think about tofu pizza??

Please look for Restaurant Research LLC's upcoming Concept Benchmark Analyses on Pizza Hut, Domino's and Papa John's.

www.ChainRestaurantData.com

For more information please contact us at (860) 274-4962 or info@restaurantresearch.info with questions related to this report.

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Restaurant Research LLC leverages an extensive network of industry players as part of its annual Concept Benchmark Analysis due diligence process for 22 large US restaurant chains. Also, RR tracks store level data for all major chains with system-wide sales in excess of \$1B across all major restaurant segments in order to produce 11 key Industry Data Topic reports.

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