

Syracuse University

SURFACE

Syracuse University Honors Program Capstone Projects Syracuse University Honors Program Capstone Projects

Spring 5-5-2015

The Role of Investor Relations in Crisis Communications

Rebecca Leigh Warren
Syracuse University

Follow this and additional works at: https://surface.syr.edu/honors_capstone



Part of the [Advertising and Promotion Management Commons](#)

Recommended Citation

Warren, Rebecca Leigh, "The Role of Investor Relations in Crisis Communications" (2015). *Syracuse University Honors Program Capstone Projects*. 902.

https://surface.syr.edu/honors_capstone/902

This Honors Capstone Project is brought to you for free and open access by the Syracuse University Honors Program Capstone Projects at SURFACE. It has been accepted for inclusion in Syracuse University Honors Program Capstone Projects by an authorized administrator of SURFACE. For more information, please contact surface@syr.edu.

The Role of Investor Relations in Crisis Communications

A Capstone Project Submitted in Partial Fulfillment of the
Requirements of the Renée Crown University Honors Program at
Syracuse University

Rebecca Leigh Warren
Candidate for a B.S. Degree
and Renée Crown University Honors
May 2015

Honors Capstone Project in Public Relations and Finance

Capstone Project Advisor: _____
William Jasso, Professor of Public Relations

Capstone Project Reader: _____
Donna Stein, Professor of Public Relations

Honors Director: _____
Stephen Kuusisto, Director

Date: May 1, 2015

© Rebecca Warren, May 5, 2015

Abstract

By the end of the 2000s, Domino's Pizza Inc. was facing decreasing sales and a dwindling stock price, as consumers were frequently disappointed in the quality of the chain's food. In April 2009, the pizza giant was faced with a sudden crisis when a YouTube video surfaced showing employees contaminating food with bodily functions.

This study will focus on the events following the crisis. Specifically, the study will examine Dominos' unique pivot towards a transparent communications strategy in hopes of revitalizing its business model and its share price.

The methodology used to explore Domino's new communications approach includes an in-depth examination of Domino's communications and advertisements. Further research included heavy analysis of media publications and analyst recommendations surrounding the company.

The analysis will argue that Domino's used an innovative communications strategy centered on transparency and honesty to revitalize its business. Additionally, this study will argue that the company's approach fully aligns with the Page Principles, seven key guidelines for public relations professionals.

Ultimately, Domino's multi-step approach will be considered a model for future crisis communications efforts. The campaigns have resulted in a 13 times return for Domino's share price over the past seven years and have led to the company being named the World's Top Pizza Chain by *Business Insider*.

Executive Summary

By the end of the 2000s, Domino's Pizza Inc. was facing slumping sales and a dwindling stock price, as consumers were frequently disappointed in the quality of the chain's food. In April 2009, the pizza giant was faced with a sudden crisis when a YouTube video surfaced showing employees contaminating food with bodily functions.

In hopes of keeping its stock price afloat, Domino's overcame the crisis by taking extensive steps, which included an apology from the CEO, market research, the establishment of a separate Twitter account for customer inquiries, a new advertising campaign and an extensive rebranding campaign.

After the immediate crisis response, the company began developing an entirely new business model. The company began conducting extensive focus groups to understand what customers thought about its products. Then, in 2010, the company took this criticism and developed an entirely new recipe for its pizza, as well as an innovative advertising campaign to announce the revolutionary product.

In the years following, the company took this transparency initiative even further with campaigns such as "Show Us Your Pizza," which asked customers to post their own photos of Domino's pizza to the brand's social media pages, and "Domino's Live," which gave customers an inside look at how their pizzas were being made.

All in all, this led to incredibly positive results for Domino's stock price. When the initial crisis occurred, the company's stock was trading at just over \$7. Year after year, the stock price has doubled, and today the share price is over \$100.

Table of Contents

Abstract	iii
Executive Summary	iv
Acknowledgements	vi
Advice to Future Honors Students	vi
Chapter 1: A History of Domino’s Pizza	1
Background on Domino's Pizza.....	1
Financial History of Domino’s Pizza.....	2
Chapter 2: The Crisis	6
Chapter 3: The immediate Response	9
Chapter 4: Immediate Financial Effects of the Crisis	12
Chapter 5: Analysis of the Immediate Response of Domino’s Pizza	15
Chapter 6: Long-Term Response to the Crisis	19
The Pizza Turnaround.....	19
Financial Measurement of the Pizza Turnaround.....	23
Show Us Your Pizza.....	24
Domino’s Live.....	26
Chapter 7: Evaluating Domino’s Long-Term Crisis Response	29
Page Principles.....	29
Other Forms of Measurement	31
Chapter 8: Conclusion	33
Works Cited	35
Appendices	39

Acknowledgements

I would like to thank all of those who helped me with my Honors Capstone, including my Honors Capstone Advisor William Jasso and my Honors Capstone Reader. These two outstanding professors provided me with the guidance and advice necessary to write an investor relations and crisis communications case study.

I would also like to acknowledge the public relations and finance faculty members that have helped me grow my understanding of these two fields. During my four years at Syracuse University, outstanding professionals have taught me and have contributed greatly to my ability to write about my selected topic.

Lastly, I would like to thank all of the members of Crispin Porter + Bogusky who I had the privilege of working with over the past summer. Every member of the Domino's team provided excellent insight and guidance as I learned more about the communications field.

Advice to Future Honors Students

The most important piece of advice that I can give Honors students is to select a topic that interests them. Though the Capstone project may seem daunting, if the right topic is selected it is a truly enriching experience.

I would also encourage future Honors students to use all available resources, which includes the faculty in their fields of study, the honors faculty and the incredible online resources available through Syracuse University. Everyone on this campus is willing to help as long as you ask.

Lastly, I would encourage future Honors students to start early. Even conducting simple research or creating an outline early becomes invaluable, as senior year can move at an unbelievably fast pace.

Chapter 1

A History of Domino's Pizza Inc.

Background on Domino's Pizza

In 1960 two brothers, Tom and James Monaghan, purchased DomiNick's Pizza for \$900. One year later, James traded his 50 percent stake in the business for his brother's Volkswagen Beetle. With only Tom leading the business, the first company franchise opened in 1967 and quickly began to realize success. However, when Tom went to purchase another pizzeria, the owner forbade him from using the name DomiNicks. An employee suggested that Tom consider the name Domino's, and the modern day pizza chain was born (Domino's, 2014).

Following the first franchise, expansion rapidly continued, with the company opening its 200th store in 1978 and its 1,000th store in 1983. By 1985, Domino's was the fastest-growing pizza company in the United States (Domino's, 2014).

The company began expanding from strictly pizza delivery by adding breadsticks to the menu in 1992 and Buffalo wings in 1994. In 1998, the company revolutionized the pizza delivery business with the invention of the Domino's Heat Wave. This product was the first-ever delivery bag designed to keep pizza warm from the store to the customer's home. This creation launched the beginning of Domino's lead in innovation

in the pizza and quick-service restaurant industry. In 2007, the company unveiled mobile and online ordering and the Domino's Pizza Tracker in 2008 (Domino's, 2014).

However, the company's long history of success was challenged in 2009 when two unhappy employees posted a video of themselves placing cheese up their nostrils and placing it on a pizza, as well as passing gas on salami and placing the lunch meat on a sandwich. The video quickly went viral garnering more than 1 million hits in the first week (Clifford, 2009).

Domino's rapidly worked to develop an in-depth response strategy and repair the crisis. In hopes of realigning the corporate values, the pizza chain shifted its focus from fast delivery to high quality products. It returned to its roots of innovation with its iPhone, iPad and Android apps, as well as the Ultimate Delivery Vehicle. The pizza-maker opened its 10,000th store in 2012.

Financial History of Domino's Pizza

In 2004, Domino's went public under the ticker symbol DPZ. During its initial public offering, the company offered 24.1 million shares for \$14 per share. This price was below the expected range of \$15-\$17. The closing price by the end of the first day was \$13.50 (Barker, 2004). Additionally, the stock lacked a positive first day run-up seen among other IPOs during the same time, such as BlackBerry and CRM ("Domino's IPO," 2004). The performance was viewed as disappointing.

Preceding its IPO, Domino's was privately held, with Monaghan holding full ownership. When Monaghan retired in 1998, he sold 93 percent of his stake in the company to Bain Capital for approximately \$1 billion dollars (Boyer, 2007). Unlike many

other private equity buyouts performed by Bain Capital, Domino's was not a failing company at the time of the deal.

However, due to the deal's structure, the buyout was heavily leveraged, meaning debt was heavily used to purchase the company. One third of the \$1.1 billion was paid in cash, while the remaining two thirds were financed using debt. This structure was thought to be appropriate because Bain foresaw the pizza giant continuing its growth, allowing for ample future debt payments. Though these debt ratios are fairly standard for a private equity buyout, as the economy began to slow following the dot-com bubble of the early 2000s, the sizable amount of debt became a problem for Domino's. When the company's sales, and as a result its cash flows, began to falter, the high debt payments became problematic (Reeves, 2004).

Ultimately, Bain Capital was forced to refinance the debt in 2003. When this was not enough, the company underwent an IPO to pay off \$125.5 million of its \$948 million in long-term debt. Additional proceeds were going to be used to buyout Bain's majority position, as well as for bonuses and stock options (Reeves, 2004).

Preceding the IPO, analysts were skeptical of the amount of debt still on the company's financial statements. *Forbes* wrote, "On March 21, Domino's long-term debt totaled \$942.3 million. This isn't a killer, but it should make investors cautious." The article went on to state "Love the pepperoni, not the IPO" (Reeves, 2004).

David Menlow, CEO of IPOfinancial.com was also skeptical stating:

Domino's Pizza is a name that people will just be able to put their head on the pillow at night and say, I'm OK with this stock. As far as growth that is going to turn into a good investment, this will probably be along the lines

of a utility stock that just moves very slowly on the upside (“Cash-strapped,” 2004)

These criticisms all led to the company’s disappointing. The \$14 initial share price was unsatisfactory and the stock price slid to as low as \$12.75 before the price began slowly increasing (Google finance, 2015). In the years following, the stock reached as high as \$33.66 before rapidly collapsing in April of 2007 due to larger economic stresses. In that month alone, and after announcing that quarterly profit decreased 68 percent, the company’s stock fell 38 percent (247wallst, 2015).

The price continued to slide through November 2008, reaching a historical low of \$2.83 as the company continued to struggle amidst the financial crisis. By April 2009, when the video of the employees placing cheese up their nose went viral, the stock price was hovering around \$7 dollars. Following the video’s release, the stock dropped to as low as \$6.65, but because the price had been so severely deflated, the effects were somewhat limited (Google Finance, 2015).

Following the response to the video, the company’s stock began to gradually increase once again and reached over \$9.00 just days after the crisis. In combination with new advertising and marketing efforts as well, Domino’s stock began to have a more positive trajectory, doubling in price by April of 2010.

From there, the positive growth only continued with the company reaching a stock price of \$50 in March 2013 and \$100 in January of 2015. Analysts have consistently stated that the stock price is overvalued in recent years, but share prices have risen year after year.

Chapter 2
The Crisis

Late in the evening on April 12, 2009, two Domino's employees at a Conover, North Carolina franchise shot a video of themselves performing what they viewed as a harmless prank. One employee, later identified as Michael Setzer, placed cheese up his nose and blew the topping onto a sandwich. Setzer then placed salami for the sandwich behind his backside and passed gas onto the lunchmeat before placing it on the customer's meal. Setzer's accomplice, Kristy Hammonds, filmed the entire incident while also providing color commentary. The two minute and 26-second video was entitled "Dominos Pizza Special Ingredients."

Three other videos were also created, though they did not receive the notoriety of the previously described clip (Young & Flowers, 2012). The other videos, entitled "Sneeze Sticks," "Poopie Dishes," and "Dominos Pizza Buger," show Setzer partaking in acts such as wiping his rear-end with the dish sponge and then cleaning pizza pans, and "stuffing a pepper up his nose while making oven-baked sandwiches" (Peeples & Vaughn, 2010).

In the videos, the employees show clear disrespect for the franchise and disregard for possible consequences of their actions. Among the laughs and sarcastic comments in the video that garnered the most attention, Kristy can be overheard making comments.

In about five minutes it'll be sent out on delivery where somebody will be eating these, yes, eating them, and little did they know that cheese was in his nose and that there was some lethal gas that ended up on their salami...Now that's how we roll at Domino's. (Clifford, 2009)

In other videos, she can be heard saying:

Our manager is unaware of what we are doing at the moment. He is back in the back, reading the newspaper, like always, while we are here, clowning around, putting snot in people's food. (TricesWorld.com, 2009)

The pair then uploaded the video to YouTube where the link spread rapidly around the Internet. For Domino's, the video began to be referred to as "Boogergate." By midnight on April 12, the video had already received 29,000 views. The following day, the video had been watched over 700,000 times. The clip would go on to be seen over one million times before it was removed on April 15. The popularity only grew as the video was listed in five of 12 Google search results for the word "Domino's" (Veil, Sellnow & Petrun, 2012)

The video was shared largely on the social media site Twitter, with over 15,000 users sharing a link to the video. These tweets showed a variety of sentiments towards the crisis. Many users acknowledged their intent to not eat Domino's in the future, while others used the video to support their convictions to never eat Domino's in the first place (Park, Cha, Kim and Jeong, 2012).

Additionally the many large media outlets wrote about the video, exposing an even wider audience to the clip. Companies such as *The New York Times*, *The Huffington Post*, *ABC*, *Ad Age*, *TIME*, and *NBC*, in addition to many local and state publications, ran stories detailing the event and playing the full video or short segments.

Chapter 3

The Immediate Response

Though the video was posted on April 12, the company was unaware of its existence until late in the day on April 13. Tim McIntyre, the pizza restaurant's vice president of Corporate Communications, was alerted of the videos' existence by a blogger from the watchdog organization GoodAsYou.org who sent him the clip (Cifford,

2009). McIntyre collaborated with GoodAsYou.org to help identify the franchise owner as well as the employees. Shortly thereafter, McIntyre stated in a *New York Times* article that the company did not want to respond “too aggressively”; instead, he had hoped that the crisis would “quiet down” on its own (Clifford, 2009).

Shortly after the employees had been identified, Domino’s fired the pair. The company then obtained federal warrants for both of their arrests for “the delivery of prohibited goods.” The two employees insisted that the video was a harmless hoax, but the pizza maker was not willing to accept this excuse without thorough investigation (Seil, Venrow & Petrun, 2012).

Instead of making an immediate public announcement on the issue, McIntyre chose to respond to the bloggers who alerted him of the crisis directly. He stated that he was nervous to take steps that were too public, as he did not want to alert a greater portion of the general public to the video’s existence (Seil, Venrow & Petrun, 2012). However, this strategy was ultimately one of Domino’s biggest downfalls during the crises.

In response to the large number of tweets and retweets the link was obtaining on Twitter, the company established a separate account to handle video-related inquiries on Tuesday, April 14. The handle @dpzinfo was used to answer questions, as well as respond to customer concerns. However, it is important to note that this action was not taken until two days after the video’s release (Clifford, 2009).

The following day, April 15, Domino’s posted an apology video featuring President Patrick Doyle to YouTube. Doyle apologized on behalf of the company for the employees’ actions and stated that company has to “work to regain your trust.” In his

speech, Doyle also noted actions that the company was taking to overcome the employees' poor choices. This included closing the store so it could be completely sanitized, reevaluating hiring practices and contracting auditors to examine the cleanliness of every store. Doyle states, "There is nothing more important or sacred to us than our customers' trust," fully demonstrating his commitment to all of the company's clientele ("Domino's president," 2009).

The video was shared on Domino's social media pages in hopes of reengaging users who had seen the previously posted prank videos. The video received 330,000 views in the first week. Though this is less than a third of the hoax video, it is still a very sizeable number (Young & Flowers, 2012).

Unfortunately, the video came under criticism, not for Doyle's message, but for his delivery. Doyle is not looking into the camera; instead, he appears to be reading a script off-screen. Additionally, many users noted that he looks uncomfortable and appears insincere (Young & Flowers, 2012).

Interestingly, the company did not release any written statements to combat the negative effects of the employees prank (Flandez, 2009). Most companies who have faced similar crises prefer to go with written statements released directly to news outlets. For example, when a video was released of a Burger King employee bathing in the restaurant's sink, the company released the following statement to the media:

Burger King Corp. was just notified of this incident and is cooperating fully with the health department. We have sanitized the sink and have disposed of all other kitchen tools and utensils that were used during the incident. We have also taken appropriate corrective action on the employees that were involved in the video.

Additionally, the remaining staff at this restaurant is being retrained in health and sanitation procedures (Foxnews.com, 2008).

Domino's did post a statement on its corporate website entitled "Update to our Valued Customers." The full text of the apology can be found in **Appendix A**, but the text carries the same general message as the video apology.

Though the information on the website as well as the video, were likely viewed by interested investors, the company showed questionable judgment in how it handled its shareholders' interests as very little informational was included in quarterly or annual reports. The company did highlight its new advertising campaign multiple times in the annual report, but the video itself was never mentioned.

Chapter 4

Immediate Financial Effects of the Crisis

The video had relatively little impact on the company's stock price. At first glance, it appears that the company's stock suffered a decline of .3 percent on April 13th, 2.56 percent on April 14th and 1.082 percent on April 15th. Thus by April 15th, the company's share price had decreased 14 cents. Many sources have cited this drop as a significant impact of the video's release.

Though for some stocks this figure would be significant, Domino's share price was highly volatile during this time period. According to *The Economic Times*, volatility

is the “rate at which the price of a security increases or decreases for a given set of returns.” Essentially, it is a measure of risk (“Volatility,” 2015).

Daily volatility for Domino’s stock for the year before and the year after the video was equal to 4.4 percent, which means that daily returns varied on average 4.4 percent. As a result, the fluctuations resulting from the video seem relatively insignificant.

However, an event study was conducted to determine the full significance of the slightly decreased share price. This research is based on a comparison between Domino’s stock price and the returns of the S&P 500 during the same time period. A regression was created using Microsoft Excel.

The model was used to create expected returns ($[E(r)]$) for the stock. Abnormal returns (AR), or the discrepancy between real returns and expected returns, were then calculated by subtracting the expected return from the actual return. The full calculations can be found in **Appendix B**, while a graphical representation can be seen in Figure 1 below.

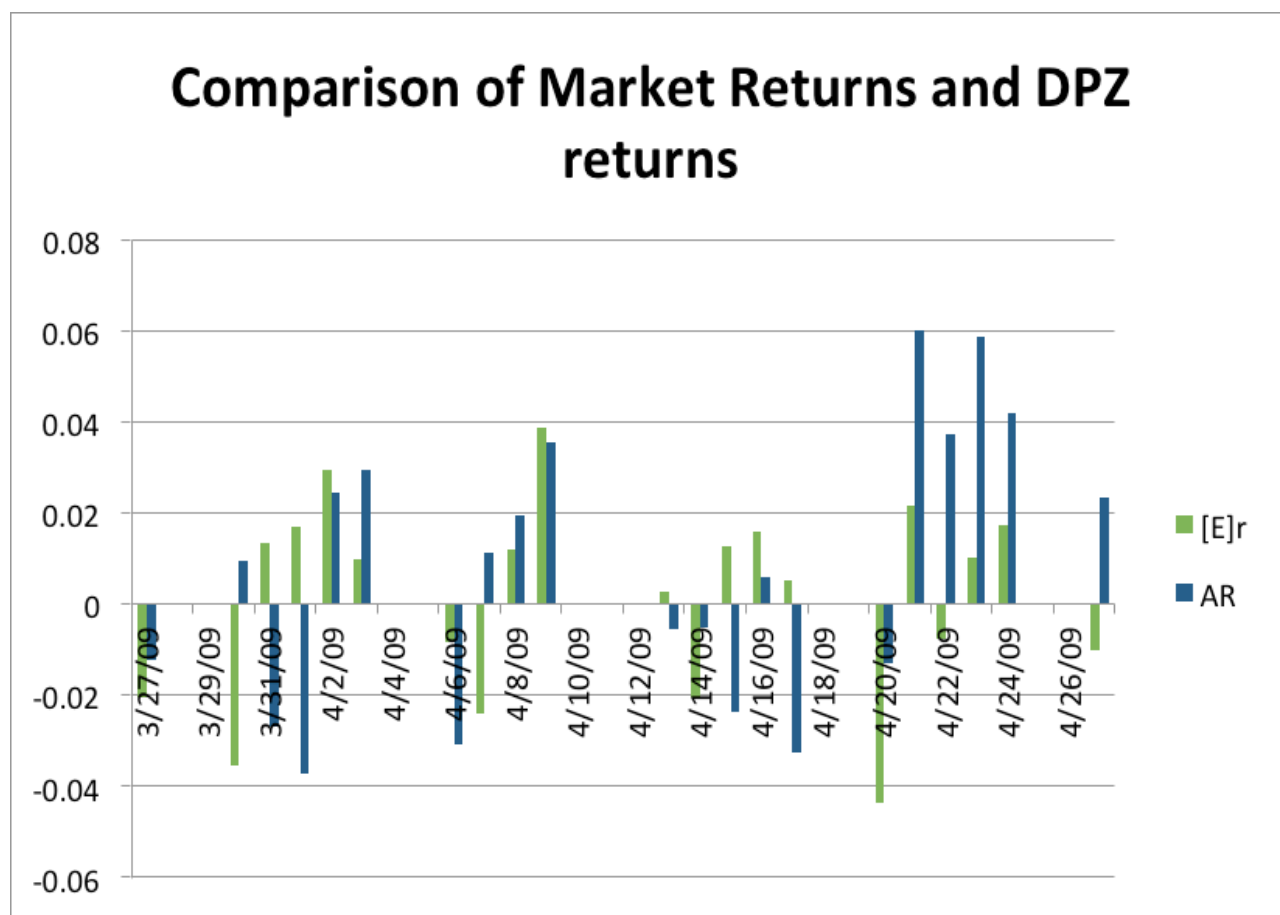


Figure 1: Comparison of Market Returns and DPZ Returns

Accumulated abnormal return (AAR), or the sum of all abnormal returns in the ten days preceding and following the video's release was also calculated to allow for the t-test value to be calculated. Investopedia defines a t-test as "a statistical examination of two population means." In this case, it was used to determine if there were statistically significant differences between market returns, as demonstrated by the S&P 500 Index and Domino's. The test showed that in the 10 days preceding and following the video's release, only two days, April 21 and April 23, had significantly different returns. However, these returns were only significant on a 20 percent confidence interval. On April 23, the statistically significant increase was likely the result of a positive quarterly sales announcement by the company.

Chapter 5

Analysis of the Immediate Response of Domino's Pizza

The company was able to make a strong crisis response in the days following the effort. Though the efforts were not perfect, they detailed strong public relations practices

as outlined by the Page Principles. These principles were developed by the Arthur W. Page Society and are generally seen as overarching guidelines for all communications professionals.

These guidelines are:

- Tell the truth
- Prove it with action
- Listen to the customer
- Manage for tomorrow
- Conduct public relations as if the whole company depends on it
- Realize a company's true character is expressed by its people
- Remain calm, patient and good humored (Page, 2007)

While Domino's did not properly demonstrate all seven of the Page Principles, the company did execute a majority of these values in its crisis response.

One of the values that Domino's executed exceedingly well was "Conduct public relations as if the whole company depends on it," which was primarily demonstrated through the involvement of the president in its apology video. Though Doyle is not incredibly camera friendly, the choice of using him as a spokesperson for the event helped demonstrate how concerned Domino's was about the event. Because the apology was prerecorded, it was less of a risk to have Doyle on camera. He could rehearse for the apology and would not have to answer questions, as he would have had to during a traditional press conference.

Additionally, the company did a phenomenal job in recognizing that its employees expressed Domino's true character. One example of this was its quick

separation of Setzer and Hammonds from the company. Furthermore, Doyle took a multi-faceted approach to address the issue of employees representing the company in his apology video, in which Doyle explains the company is “reexamining all of [their] hiring practices to make sure that people like this don’t make it into [their] stores” (“Domino’s president,” 2007). By using the phrase “people like this,” in a sentence that uses the first person plural, Doyle only further separates the two employees from the rest of the Domino’s workforce.

Doyle goes on to show that these two employees do not reflect the true nature of the rest of the company’s personnel. The incorporation of such large figures throughout the apology only further highlights this point. Doyle emphasizes:

It sickens me that the actions of two individuals could impact our great system where 125,000 men and women work for local business owners around the U.S., and more than 60 countries around the world. (“Domino’s president,” 2007)

However, the company’s crisis response video struggled to fully demonstrate the first principle, which is to “tell the truth.” The company knew about the crisis for over 24 hours before the apology was posted on the website. If the company had been using that time to further develop its response strategy, this could have been a wise use of time. However, the vice president of Corporate Communications, made a point in his interviews following that he was intentionally silent because he did not want to alert potential customers about the crisis.

Professor William Jasso notes in his crisis communication teachings that the most important element of handling a public relations emergency is to have a plan. McIntyre has indicated in interviews following the incident that the company had no

strategy in place to deal with a social media crisis (Peeples & Vaughn, 2012). Largely, this mishandling of the situation was because the company was still somewhat new to social media, especially Twitter. According to McIntyre, the plan was in development and would have been ready if the crisis had occurred one week later (Jacques, 2009).

Aside from the initial lack of transparency by Domino's, the company was truthful throughout the rest of the crisis. Additionally, it "proved it with action," by firing the employees, conducting extensive audits and undertaking a new initiative towards transparency and improving on the company's past.

One remaining problem was the limited reach of the company's apology. McIntyre noted that because the crisis had begun on YouTube, the organization wanted to focus on this less traditional media outlet for its apology as well. However, the apology had less than one third of the views of the original video. The original video was featured on a variety of traditional news shows and online outlets. Though the apology was featured to some extent online, it simply did not receive the same coverage as Hammonds and Setzer's video.

Chapter 6

Long Term Response to the Crisis

The Pizza Turn Around

Following Boogergate, things went from bad to worse for the chain. In December of 2009, a consumer taste test for pizza conducted by Brand Keys rated Domino's as the worst tasting pizza of all available, tying for last with Chuck E. Cheese. The chain fell far below traditional competitors, such as Papa Johns and Pizza Hut (Thomaselli, 2009).

Domino's, partnered with its advertising agency Crispin Porter + Bogusky (CP+B), realized something needed to change. The brand's reputation was crumbling and sales were plummeting. Fewer and fewer customers were choosing to eat at the chain, and something needed to be done. After working with the cultural insights group at CP+B, a unique issue was discovered. According to Account Director, Kristi Kirkeidi, "[T]he campaign was based around the cultural tension that many people found Domino's pizza unappetizing, a fact that was only further emphasized by Boogergate."

The company conducted numerous focus groups to better understand what people viewed was wrong with its pizza, and the company as a whole. The company turned to social media to better follow and analyze criticism of their pizzas, which led to the company creating an entirely new recipe (Kirkeidi, 2015).

The focus groups were recorded and portions of the tapings were later incorporated in Domino's 30-second and 15-second commercials, as well as a full-length documentary. The groups' videos showed individuals criticizing Domino's saying the crust of the pizza tasted like cardboard, the sauce was comparable to ketchup and the product was overall lacking in love (pizzaturnaround.com, 2011).

The video entitled "Domino's Pizza Turnaround," was featured on a micro-site dedicated specifically to the company's new business practices. The four-minute documentary was very similar to the apology video issued following the "booger sandwich" crisis. Doyle is seen speaking to the viewer, and once again apologizing for the company's poor quality food.

However, the commercials and the documentary are much more uplifting than the original apology video. They show that Domino's is proactively seeking a solution to the problem, and is willing to face critics head on.

This campaign was Domino's first episode of true transparency following its apology video. The crisis only highlighted the need for Domino's to be honest with the customer, while also undergoing a significant internal turnaround.

This new advertising campaign was the center of Domino's 10-K for 2009. As mentioned previously, the company did not speak to the YouTube video in its annual report for the year. However, the new emphasis on transparency was highlighted throughout.

The campaign was received well. In testing, the advertisement received the highest scores of any ever created for the company by Crispin Porter + Bogusky (Kirkeidi, 2015). *Entrepreneur Magazine* reported that "[t]he honesty of the commercials succeeded in capturing not only customers' curiosity, but their sympathy as well. There's something quite appealing about a big company willing to admit to its mistakes and put in the effort to correct them" (Herald, 2010).

The media spent to reach these gains was only \$3 million, or nine percent greater than previous years. In January and February of 2009, the brand spent \$35 million, whereas, media spending for the same two months in 2010 was \$38 million. The spending decrease indicates the strength of the new ads. Domino's wasn't significantly increasing the number of impressions its commercials received; instead, the brand finally had a message that made people listen (York, 2009).

The company also garnered a great amount of earned media placement for its new pizza. This included pizza taste tests on popular television shows such as *The Early Show*, *The Colbert Report* and *CBS News* (Bhasin, 2011).

Domino's also harnessed the power of social media and bloggers to further the reach of the pizza turnaround campaign. Individuals began conducting their own taste tests of Domino's pizza and competitors. The hashtag of #newpizza quickly emerged on Twitter, as users posted their own thoughts about the new recipe. The company engaged with these users and reaped the benefits of a more involved following. Unlike its previous use of the platform, Domino's responded to users and rewarded tweets with a response thanking customers for their opinions. Furthermore, the company included a live Twitter stream on the pizzaturnaround.com microsite. Not all tweets featured on the sight were positive, but this fact only added to Domino's credibility. One author noted that this feature served as a way to "help convince people that are on the fence about trying the new pizza" (Bodnar, 2009).

The company's engagement with the news media and individual customers demonstrates the value and power of third-party endorsement. Third-party organization endorsement is defined as "an advertisement that contains a positive evaluation of the advertised product or service that comes from an identified third-party organization" (Dean & Biswas, 2009). Although the inclusion of both positive and negative responses from actual customers is common today, the idea was novel at the time. But ultimately, this practice served to significantly strengthen Domino's claim that its new pizza was a drastic improvement from previous products.

John Glass, a Morgan Stanley analyst, noted that though many customers were inclined to try the new pizza because of the new crust, sauce and cheese, it was largely the advertisement that convinced people. Glass wrote in *TIME* magazine, “The spots inspired many people to retry the brand.” In an interview, Glass further explained:

It's one thing to say, 'We have a new and improved product' — customers hear that all the time. But if a company admits there are problems, customers figure that the new product has to be better. People are so used to not being told the truth in advertising. The candor worked. (Gregory, 2011)

Financial Measurement of the Pizza Turnaround

In terms of financial measurement, the advertising campaign began what would be a long string of successes for the pizza chain.

Though it is difficult to directly relate the increase in share price to the pizza turnaround, there are no other events that would have led to such an increase in the short period of time following the company's initiative. Historically, advertising has been able influence a company's share price by increasing current and future demand.

Though advertising does not affect the fundamental and technical aspects of a company's share price such as its price-to-earnings ratio or the number of outstanding shares, a company's media presence is able to shape the psychological perception of the stock (Pinkasovitch, 2010). Domino's is a key example.

The Pizza Turnaround created the perception of higher quality goods and encouraged the brand's former critics to try its products again, which led to the increased sales and earnings figures, resulting in a higher share price. However, any

campaign is ultimately useless if these effects are only immediate and have no long-term growth effects for the company. The Pizza Turnaround was successful in both the short term and long term for Domino's.

The television spot first aired on December 14, 2009. On December 14, the stock closed at \$7.66, but within days the price began climbing. Two days later, the stock broke \$8.00 for the first time in two months. Less than one month later, on January 6, 2010, the stock closed above \$9.00 for the first time since September (Google Finance, 2015). First quarter financial reports only further confirmed the brand's success. Same-store sales gains were above 14 percent (York, 2011), and they continued to increase month after month, as seen in the chart below.

CP+B continued to run variations of the original Pizza Turnaround advertisement. These adaptations included people from the original commercial, who had criticized the pizza in the focus groups, trying the new pizza recipe. Each clip demonstrated a former critic becoming a believer and raving about the quality of Domino's new pizza. On December 15 of 2010, one year after the Pizza Turnaround, the company's stock price had more than doubled closing at \$15.85 (Google Finance, 2015).



Figure 2. Historical DPZ Prices from December 2009 to December 2010.

Show Us Your Pizza

Many worried that these steps towards transparency and listening to the customer were a short-term solution for Domino's. But the company began to see the true value of these efforts and, in the summer of 2010, took corporate transparency even further with their "Show Us Your Pizza Campaign."

The campaign once again harnessed the power of social media and social listening by encouraging users to share photos of their pizza once it had been delivered. The goal of this campaign was to demonstrate that the company did not need the traditional methods of high-end food photographers for the pizza to look appealing (Collier, 2011).

The campaign began with a unique video detailing all that goes into a traditional photo-shoot for any food company. The short documentary featured all of the prep work involved in making the food look delicious and highlighted many industry secrets. The video ended with the company telling viewers that stylists were not needed to make its products look better. The company also invited customers to upload their own pictures to showusyourpizza.com and the brand's Facebook page (Lincoln, 2011).

Thousands of photos were uploaded to the site, many of which were featured in the company's print and online advertisements. Interestingly, users also uploaded pictures of pizza that looked completely unappetizing. In many instances the cheese was stuck to the box's lid or the toppings were severely burnt. Instead of deleting these pictures or ignoring them, Domino's did something unusual in the name of transparency. In February 2011, the company created another 30-second television spot that once

again featured CEO Doyle apologizing for the sub-par products and service his customers were receiving. The company apologized to each user who posted a picture of a ruined pizza in the comments section on its Facebook page. Additionally, these customers were offered a refund. It was beginning to appear that the transparency of the Pizza Turnaround was becoming a corporate value of Domino's, and many were hopeful that this trend would continue (Lincoln, 2011).

These sentiments were reflected in the company's share price. By November of 2011, the share price had increased by over 130 percent year-over-year. The stock had once again reached pre-recession levels; a significant accomplishment in a still largely depressed economic climate (Gunderson, 2011).

Domino's Live

But the company did not stop its transparency efforts there. On May 1 2013, Domino's did something drastic when it announced that customers were going to be able to watch their pizzas being made. In a 2014 presentation, CP+B producer Stafford Bosak noted that this strategy was a huge risk for the company. Though management had made many changes to improve the behind the scenes work in the company's kitchens following Boogergate, they feared broadcasting the pizza-making process. Domino's, on the other hand, believed this step was absolutely necessary in regaining the customer's trust following Boogergate (Bosak, 2014).

Domino's set up five cameras in a Salt Lake City, Utah store. The five cameras broadcast from 11 a.m. to 11 p.m. every day showing items such as the crust station, the topping station, and pizzas fresh from the oven. Screen grabs of camera views can

be found in **Appendix C**. In his presentation, Bosak pointed out that Domino's competitors such as Papa Johns and Pizza Hut were likely watching the site in hopes that an error was made in the kitchen, possibly something as unfortunate as Boogergate. As a result, Domino's had to develop a large crisis communications plan should any unplanned events occur. This strategy included Domino's employees constantly watching the video feed and in the event of an issue, a way to cut the feed nearly instantaneously (Bosak, 2014).

Once again, Domino's chose to incorporate a social media aspect to this project. Customers could like the Domino's Live page on Facebook and see their name appear on a digital display that was featured on one of the five cameras the company had set up. Over the course of four weeks, the page received over 13,000 "like light" likes. Additionally, there was heavy conversation about the project on other platforms, particularly Twitter. The hashtag #dominoslive trended nationally as customers engaged with the brand. It is clear that in addition to transparency, Domino's saw the value in social listening and engaging its followers, though this had previously not been the case.

In an interview about the project, Chief Marketing Officer, Russell Weiner, noted that this project was "simply the next step in transparency and an opportunity for Domino's to invite fans and customers into our store — digitally. This is completely unique to anything you see other pizza companies doing" (Flacy, 2013).

The project centered on earned media, as the company did not spend any media dollars to engage its publics. Over the course of the month, the site had over 250,000 unique visitors and over 1,000,000 page views. The project earned over 375 million

media impressions. The project was featured on *Today*, *Good Morning America*, *Jimmy Fallon* and *Conan O'Brien*. Furthermore, large media outlets such as *Fast Company*, *Huffington Post*, *Forbes* and *Business Insider* all applauded the company's new transparency efforts (Lincoln, 2014).

Following Domino's revolutionary multimedia strategy, the company recorded strong financial earnings.

On May 1, the day Domino's Live launched, the company's stock was trading at \$55.22. By May 14, the share price was over \$58.00. Though this may not seem like an incredible feat, over 10 days of trading the share price increased over \$3.00, which is quite impressive for a stock with historically high volatility.

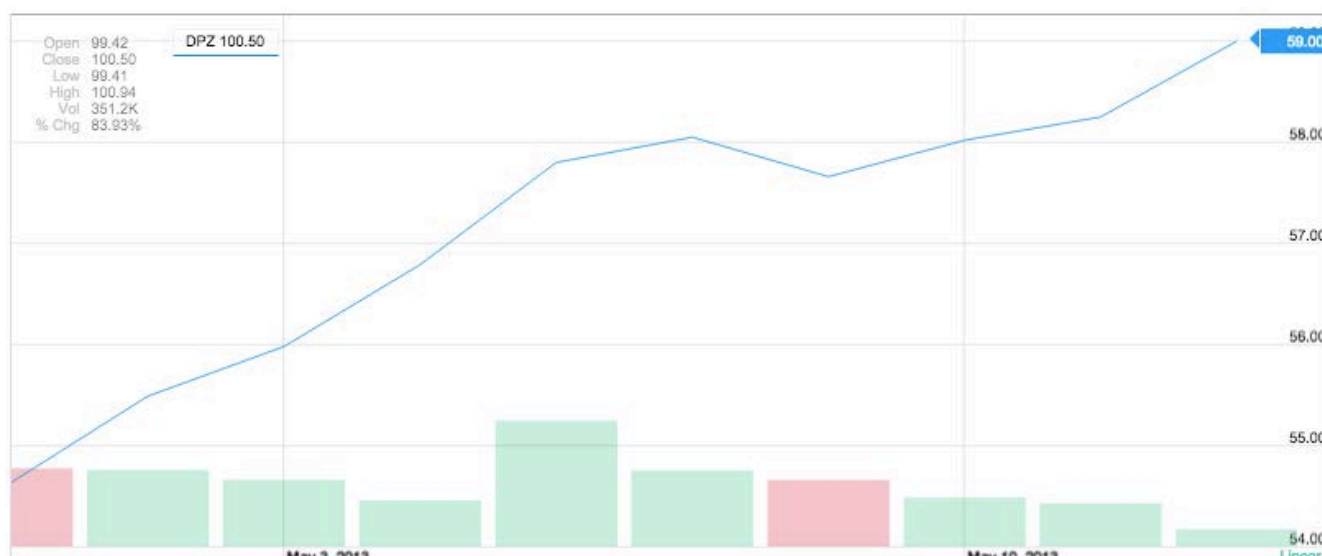


Figure 3. Domino's Share Price from May 1, 2013 to May 14, 2013

As mentioned previously in this paper, there is no way to guarantee the increase is a direct result of the Domino's Live campaign. However, there are no other documented events for the company that would likely have had such a contribution.

Chapter 7

Evaluating Domino's Long-Term Crisis Response

Page Principles

In evaluating Domino's long-term response to the issues the company was facing, the Page Principles once again prove to be a useful guide.

Tell the Truth

First and foremost, the company wholeheartedly followed the first principle, "Tell the truth," and in so doing, reaped the benefits. From the Pizza Turnaround to Domino's Live, the company focused all communications efforts on being completely transparent. Few companies, especially CEOs, are willing to call into question the quality of their products, face critics head-on and ultimately change their product to better please customers. Doyle's presence, throughout the entire 4-year period following Boogergate, demonstrates how dedicated the company was to telling the truth.

Prove it with Action

All of Domino's claims of transparency were supported by action. The clearest example of which is the entire Domino's Live initiative. In Doyle's original apology video, he noted that the company was working to review all of its kitchens and ensure the products were of the highest standard. Customers were invited to judge these changes for themselves by being given a digital all-access pass to a Domino's kitchen.

Listen to the Customer

Though many, if not all, restaurant chains conduct research in the form of focus groups, few companies are willing to make drastic changes as a result. Additionally, as the world becomes increasingly digitalized, companies are able to obtain a new kind of feedback through social media. Domino's did an excellent job incorporating both kinds of customer feedback in its brand reinvention.

Manage for Tomorrow

Many companies only consider the immediate effects of a crisis response, but this was not the case with Domino's. All of the pizza chain's efforts worked towards developing a stronger product and brand overall. The company began a long road of change in 2009 and continuously rededicated itself to these efforts. This strategy has largely benefited the company's share price.

Conduct Public Relations as if the Whole Company Depends On It

Though the meaning of this Page Principle is more open to interpretation than others, Domino's consistent work to improve its reputation and communicate with key publics demonstrates its commitment to public relations. Following the crisis, the company could have easily used a communications strategy that once again focused on quick delivery or specialty pizzas, but the information being communicated would have

been somewhat irrelevant. By developing an entirely new messaging strategy and promoting it heavily in traditional and digital media, the company further positioned itself for success.

Realize a Company's True Character is Expressed by its People

In its immediate crisis response, Domino's showed that it fully subscribed to the belief that employees express a company's true character. The company has carried this belief forward, as it has continued to feature its CEO in its campaigns, highlight chefs responsible for product development and recipes and emphasize pizza makers at its individual shops.

Remain Calm, Patient and Good Humored

Though there are not specific examples of Domino's remaining patient and calm, the strategic planning behind the campaigns demonstrate how the company remained solution oriented. Leadership continued to work to improve the company's reputation and communicate effectively with key publics.

Other Forms of Measurement

In addition to the Page Principles, the Domino's case has been widely applauded for its excellence. Recently, *Business Insider* reported that the company's better marketing strategy was one of three key reasons it became the 'world's top pizza chain' (Lutz, 2015). Domino's campaigns have consistently received awards ranging from Grand Ogilvy Awards to Cannes Lions (Lincoln, 2015).

The company's success is also mirrored in the share price. As was mentioned previously, shares were trading for less than seven dollars when the crisis first struck. This past March, shares were trading for more than \$100, which means if an investor had placed funds with the company in 2009, she would have received a return of 13 times her original investment. This increase can be seen below in Figure 4.



Figure 4. Domino's Share Price from 2009-2015

Chapter 8

Conclusion

Domino's faced immense challenges in 2009 as sales decreased, its share price slipped and employees were defiling customers' food. However, the company faced this challenge head on by using transparency, transforming its product, and listening to the customer. Domino's has become a model in regaining consumer trust for other companies to follow.

Many other companies, particularly in the food industry, have followed in Domino's footsteps of creating a more transparent model. For instance, McDonald's created the "*Our Food. Your Questions.*" Campaign. Users were encouraged to post their questions to a McDonald's branded micro-site where they could receive answers in real-time. Though the site was a strong concept, McDonald's didn't reach success because they did not support their initiative with any action, such as changing its product.

Chipotle consistently uses transparency as a key element in its business model, which features hormone-free beef, free-range chicken and "Food With Integrity." Panera has also adopted this approach and honestly communicates with customers about the contents of its food.

Domino's is largely applauded for its efforts and has aims to continue this well into the future. Though CEO Doyle believes that the future of the company relies on technology, such as the DPX Ultimate Delivery Vehicle, apps, order tracking and more, transparency and communicating with the customer underlie all of these efforts.

The company looks to innovate in the pizza industry with healthier options, such as salads and thinner crust. Based on the above ideas, Domino's commitment to the customer is clear. With every step, the company continues to pledge its loyalty to its customers.

In regards to investors, Domino's also has the opportunity to revolutionize the use of social media in investor communications. On April 2, 2013, the United States Securities and Exchange Commission ruled that companies were allowed to use social media platforms, such as Facebook or Twitter, to "announce key information in compliance with Regulation Fair Disclosure, so long as investors have been alerted about which social media will be used" ("SEC says," 2013). Since this announcement however, very few companies have chosen to utilize these tools in their investor-relations practices. If Domino's were to adapt these practices the company would be among the first to do so, just as it was with responding to customer complaints and listening to key publics.

References

- Barker, Robert (2004). Domino's IPO: Not As Tasty As It Smells. *Bloomberg Business*. Retrieved from <http://www.bloomberg.com/bw/stories/2004-07-18/dominos-ipo-not-as-tasty-as-it-smells>
- Barnes, S. (2009). Smarting from low rankings, Domino's will change its pizza. *The Times Union*. Retrieved from <http://blog.timesunion.com/tablehopping/12143/smarting-from-low-rankings-dominos-will-change-its-pizza/>
- Bhasin, Kim (2011). How domino's used social media and a new recipe to completely reinvent itself. *Business Insider*. Retrieved from <http://www.businessinsider.com/dominos-social-media-2011-7>
- Bodnar, Kipp (2010). B2b social media lessons from domino's "pizza turnaround" campaign. *Social Media B2B*. Retrieved from <http://socialmediab2b.com/2010/01/dominos-pizza-turnaround-campaign/>
- Bosak, Stafford (2014). Domino's Live. Personal communication.
- Boyer, Peter (2007). The deliverer: A pizza mogul finds a moral crusade. *The New Yorker*. Retrieved from <http://www.newyorker.com/magazine/2007/02/19/the-deliverer>
- "Cash-strapped domino's hopes for dough from IPO" (2004). *Quad-City Business Journal*. Retrieved from http://qctimes.com/business/cash-strapped-domino-s-hopes-for-dough-from-ipo/article_0ff08dac-3886-5f4e-aecf-010c2781136a.html
- Clifford, S. (2009). Dominos stung by a fake youtube video. *The Seattle Times*. Retrieved from http://seattletimes.com/html/nationworld/2009066278__dominos16.html
- Clifford, S. (2009). Video prank at domino's taints brand. *The New York Times*. Retrieved from http://www.nytimes.com/2009/04/16/business/media/16dominos.html?_r=1&
- Collier, J. (2011). Domino's show us your pizza. *YouTube*. Retrieved from <https://www.youtube.com/watch?v=MBT1Gd89fvw>
- Dean, D. & Biswas, A. (2001). Third-party organization endorsement of products: An advertising cue affecting consumer prepurchase evaluation of goods and services," *Journal of Advertising*, 30, 41-57.
- Domino's (2014). About domino's pizza. Retrieved from <https://biz.dominos.com/web/about-dominos-pizza/history>

Domino's IPO at \$14 a share, below targets; stock falters (2004). *USA Today*. Retrieved from http://usatoday30.usatoday.com/money/industries/food/2004-07-13-domino%27s-ipo_x.htm

Domino's president responds to fake youtube video (2009). *YouTube*. Retrieved from <https://www.youtube.com/watch?v=dem6eA7-A2I>

Flacy, Mike (2013). Domino's Live lets you watch streaming video of your pizza being made. Retrieved from <http://www.digitaltrends.com/web/dominos-new-site-lets-you-watch-live-video-of-your-pizza-being-made/#ixzz3WvoippEH>

Flandez, Raymond (2009). Domino's response offers lessons in crisis management. *The Wall Street Journal*. Retrieved from <http://blogs.wsj.com/independentstreet/2009/04/20/dominos-response-offers-lessons-in-crisis-management/>

Foxnews.com. (2008). Burger King Workers Fired Over Video of Teen Bathing in Sink. Retrieved from <http://www.foxnews.com/story/2008/08/13/burger-king-workers-fired-over-video-teen-bathing-in-sink/>

Gregory, S (2011). Domino's New Recipe: (Brutal) Truth in Advertising. *TIME*. Retrieved from <http://content.time.com/time/business/article/0,8599,2069766,00.html>

Gunderson, B. (2011). After the turnaround for domino's pizza, too late to buy shares? *Seeking Alpha*. Retrieved from <http://seekingalpha.com/article/308756-after-the-turnaround-for-dominos-pizza-too-late-to-buy-shares>

Herald, T. (2010). Domino's pizza turnaround pays off. *Entrepreneur Magazine*. Retrieved from <http://www.entrepreneur.com/blog/218649>

Jacques, A. (2009). Domino's delivers during crisis: The company's step-by-step response after a vulgar video goes viral. *Public Relations Society of America*. Retrieved from http://www.prsa.org/Intelligence/TheStrategist/Articles/view/8226/102/Domino_s_delivers_during_crisis_The_company_s_step#.VM1b92TF_3o

Kirkiedi, K. (2015). Personal communication.

Lara, J. (2007). Gunderson, B. (2011). After the turnaround for domino's pizza, too late to buy shares? *Seeking Alpha*. Retrieved from <http://seekingalpha.com/article/308756-after-the-turnaround-for-dominos-pizza-too-late-to-buy-shares>

Lincoln, A. (2014). Domino's pizza "dominos's live" case study video. Retrieved from <https://vimeo.com/86966131>

Lutz, A. (2015). Domino's made 3 changes to become the world's top pizza chain. Retrieved from <http://www.businessinsider.com/dominos-turnaround-strategy-2015-4#ixzz3XaxxTUUe>

Matyszczyk, C. (2009). Domino's apologizes for booger-sandwich video. *Cnet*. Retrieved from <http://www.cnet.com/news/dominos-apologizes-for-booger-sandwich-video/>

Page, A.W. (2007). The authentic enterprise: An arthur w. page society report. Retrieved from <http://www.awpagesociety.com/images/uploads/2007AuthenticEnterprise.pdf>.

Park, J., Cha, M., Kim, H., & Jeong, J. (2012, May). Managing Bad News in Social Media: A Case Study on Domino's Pizza Crisis. In *ICWSM*.

Peebles, A. & Vaughn, C. (2010). Domino's "Special Delivery" Going Viral Through Social Media. Retrieved from http://www.awpagesociety.com/images/uploads/Dominos_Special_Delivery_A.pdf

Pinkasovitch, A. (2010). How Commercials Impact Stock Prices. Retrieved from <http://www.investopedia.com/stock-analysis/2010/how-commercials-impact-stock-prices-mcd-wen-goog-bud-tap-dps0514.aspx>

Reeves, S. (2004). Domino's Unappetizing IPO. *Forbes*. Retrieved from http://www.forbes.com/2004/07/12/cx_sr_0712ipo.html

"SEC Form 10-Q" (2015). *Investopedia*. Retrieved from <http://www.investopedia.com/terms/1/10q.asp>

SEC says social media ok for company announcements in investors are alerted. (2013, April). U.S. Securities and Exchange Commission. Retrieved from <http://www.sec.gov/News/PressRelease/Detail/PressRelease/1365171513574#.UwKX2UKwKhM>

"T-Test" (2015). *Investopedia*. Obtained from <http://www.investopedia.com/terms/t/t-test.asp>

Thomaselli, R. After Tumultuous Year, New Domino's CEO to Stay the Course. *Ad Age*. Retrieved from <http://adage.com/article/news/domino-s-ceo-j-patrick-doyle-stay/141334/>

TricesWorld.Com (2009). Domino's Pizza Gross Employees Film Food Tainting of Public. *Daily Motion*. Retrieved from http://www.dailymotion.com/video/x8zsdd_domino-s-pizza-gross-employees-film_news

Veil, S. R., Sellnow, T. L., & Petrun, E. L. (2012). Hoaxes and the Paradoxical Challenges of Restoring Legitimacy Dominos' Response to Its YouTube Crisis. *Management Communication Quarterly*, 26(2), 322-345.

“Volatility” (2015). *The Economic Times*. Retrieved from <http://economictimes.indiatimes.com/definition/volatility>

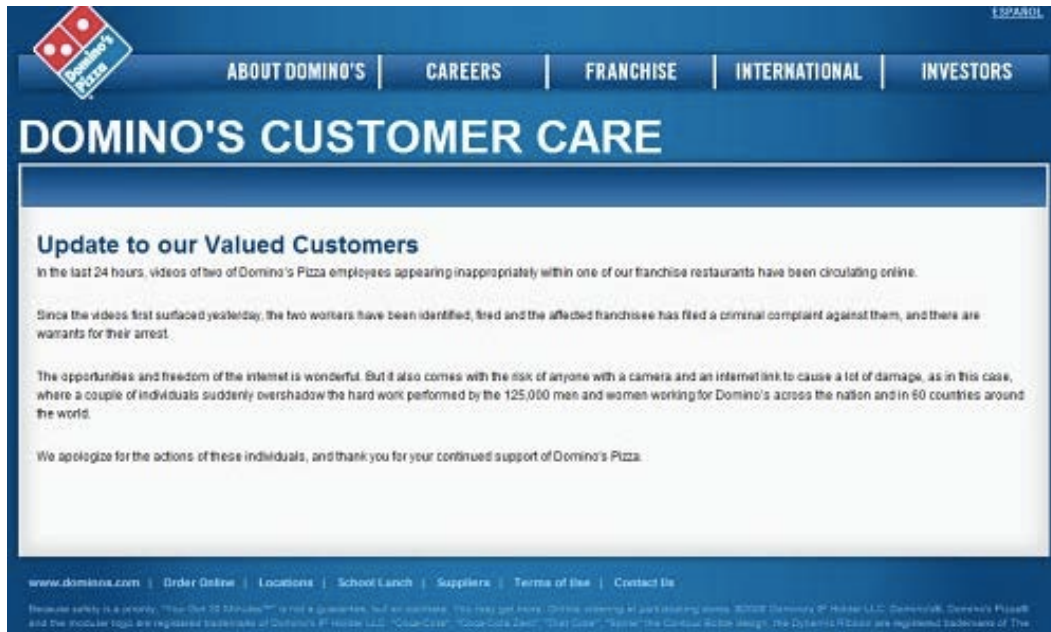
York, E.B. (2009). Domino's reports 14% same-store-sales hike for first quarter. *AdAge*. Retrieved from <http://adage.com/article/news/domino-s-reports-14-store-sales-hike-quarter/143682/>

York, E.B. (2009). What domino's did right -- and wrong -- in squelching hubbub over youtube video. *AdAge*. Retrieved from <http://adage.com/article/news/crisis-pr-assessing-domino-s-reaction-youtube-hubub/136086/>

Young, C. L., & Flowers, A. (2012). Fight viral with viral: A case study of Domino's Pizza's crisis communication strategies. *Case Studies in Strategic Communication*, 1, article 6. Available online: <http://cssc.uscannenberg.org/cases/v1/v1art6>

Appendices

Appendix A: Update to Our Valued Customers



The text reads

Update to our Valued Customers

In the last 24 hours, videos of two of Domino's Pizza employees appearing inappropriately within one of our franchise restaurants have been circulating online.

Since the videos first surfaced yesterday, the two workers have been identified, fired and the affected franchisee has filed a criminal complaint against them, and there are warrants for their arrest.

The opportunities and freedom of the internet is wonderful. But it also comes with the risk of anyone with a camera and an internet link to cause a lot of damage, as in this case, where a couple of individuals suddenly overshadow the hard work performed by the 125,000 men and women working for Domino's across the nation and in 60 countries around the world.

We apologize for the actions of these individuals, and thank you for your continued support of Domino's Pizza.

Appendix B: Event Study Calculations

Intercept	3.42749E-05
Slope	1.017706353
R-Sqaure	0.30515337
Standard Error	0.042795424

Date	DPZ adj close	S&P Adj Close
------	---------------	---------------

Appendix C: Domino's Live Camera Angles



