

TELEPIZZA[®]



Update on Results of
Incorporating TeleChef Products
in TelePizza Stores
(Nov 22, 99 - Dec 19, 1999)

December 28, 1999

Table of Contents

I.- Executive Summary

II.- Test Details

III.- Test Results:

- Sales Performance
- Sales Breakdown
- Cannibalisation Effect
- Delivery Orders
- Cost of Goods Sold
- Consumers Survey

Executive Summary

- In this presentation we would like to present to you a more detailed analysis of the test that was initiated on the 22 Nov, 99
 - We started testing 4 selected families of TeleChef products (hamburgers, sandwiches, bocadillos and hot dogs) in 6 TelePizza stores
- Given that results of our test have been extremely positive, TelePizza will begin implementing TeleChef Products in most TelePizza stores (around 80%)

■ Test Results:

▪ Sales Performance:

- In the six pilot stores the growth in total sales has been around 10% higher than the average growth in the areas in which they are located. Results of the test may be impacted by seasonality as we are comparing two weeks of two different months (page 9)
- The weight of TeleChef product sales in TelePizza net sales has increased progressively reaching 11,2% at the end of the fourth week.
- From Nov 22 to Dec 22, 99; 11% of customers that ordered TeleChef products have repeated two or more times. This compares favourably with TelePizza's 7.32% repetition rate during the first month of the last four launchings.

Executive Summary

- Sales Breakdown

- TeleChef's net sales breakdown in these pilot stores is as follow:

50% eat-in + take away 50% delivery

- This breakdown is mainly due to the 2 for 1 promotion in eat-in+take away and no promotions in delivery, being our objective:

40% eat-in + take away 60% delivery

- Cannibalisation: 4th Week v.s Week before test (Dec 13-19 v.s Nov 15-21)

- Growth of TeleChef products sales in relation to TelePizza net sales: 11,2%
- Pilot stores growth of sales over average areas growth: 9,7%
- Total Cannibalisation: 1,5%

Executive Summary

▪ Delivery Orders:

- In these pilot stores the growth in delivery orders has been 5% higher than the average growth in their areas
- The average delivery ticket that includes TeleChef products is higher than the one of TelePizza, thus the more we increase those orders the higher the store average ticket will be. (Page 15)

▪ Cost of Goods Sold:

- TeleChef products have not increased the store cost of goods sold as their cost is lower than the total store cost. (Page 17)



Executive Summary

- **Consumers Survey:**

- Survey carried out by TelePizza's call center
- 331 consumers of TeleChef products surveyed
- Dates: From Nov 26 to Dec 19, 1999
- 87% would order TeleChef Products again
- Good results in product characteristics (page 18)

- **Next Steps:**

- Pilot stores will continue being tested
- 1Q 2000:
 - Conversion of 100 stores (an average cost of Ptas 4 million) plus new openings which will include TeleChef Products
 - Action Plan starting in Jan 10, 2000; discussions to be held with franchisees to explain them the project.

Test Details

- The test has been carried out in 6 selected stores:
 - 3 stores in Madrid: Doctor Esquerdo (opening Sept 95), Manuel Noya (Dec 98), Barajas (Oct 98)
 - 1 store in Pontevedra: Vigo IV (Aug 99)
 - 2 stores in Sevilla: Arjona (Dec 97), Mairena (Jan 98)
- The test refers to four weeks: From Nov 22 to Dec 19, 1999. The fourth week is compared with the week before the test was implemented (which didn't have TeleChef products)

Test Details

- The most popular TeleChef products (hamburgers, sandwiches, hot dogs and bocadillos) are being offered in these pilot stores.
- Marketing activities:
 - Couponing:
 - The coupon cover is the same as the current TelePizza coupon; the customer may not perceive the product offer, which limits its impact. (The new product offer is included on the back and inside the coupon)
 - Promotions:
 - At store level 2 for 1
 - No promotions in delivery
 - The launching of new products in TelePizza is normally made through an aggressive offer to gain rapid product penetration. National and local TV advertising play an important role in an ordinary launching in TelePizza.
 - Telemarketing : All active customers received a phone call in which they were introduced TeleChef products



Test Details

■ Other relevant aspects:

- Easy implementation of work stations (average 3.5m²), which took 2 days on average with an average cost of Pta 2 millions.
- Employees are very positive about the new product offer.
- These new products do not restraint the capacity of the existing pizza ovens.

Test Results: Sales Performance

■ Growth in Sales

4th Week v.s Week before test (Dec 13-19 v.s Nov 15-21)

	Δ Sales		Δ Sales		Δ Sales		Δ Sales
TOTAL MADRID	4.6%	TOTAL PONTEVEDRA	16.5%	TOTAL SEVILLA	2.2%	TOTAL 3 AREAS	4.8%
DR ESQUERDO	13.1%	VIGO IV	24.8%	ARJONA	11.1%		
MANUEL NOYA	10.1%			MAIRENA	24.8%		
BARAJAS	9.6%						
TOTAL 3 STORES	11.0%	TOTAL 1 STORE	24.8%	TOTAL 2 STORES	17.4%	TOTAL PILOT STORES (6)	14.5%

- The stores with Telechef products have experienced a growth 10% higher than the average sales growth in the three areas in which they are located.
- The growth in these stores was 3.6% lower than the three areas average sales growth in the same period in 1998.

Test Results: Sales Performance

■ Growth in number of Pizzas sold

4th Week v.s Week before test (Dec 13-19 v.s Nov 15-21)

	Growth %		Growth %		Growth %		Growth %
TOTAL MADRID	6.0%	TOTAL PONTEVEDRA	11.1%	TOTAL SEVILLA	4.3%	TOTAL 3 AREAS	5.9%
DR ESQUERDO	5.0%	VIGO IV	12.1%	ARJONA	4.0%		
MANUEL NOYA	-0.1%			MAIRENA	9.9%		
BARAJAS	3.1%						
TOTAL 3 STORES	2.6%	TOTAL 1 STORE	12.1%	TOTAL 2 STORES	6.9%	TOTAL PILOT STORES (6)	5.0%

- During the test pizzas have grown 0.9% less than the three areas average growth.



Test Results: Sales Performance

■ Weight of TeleChef products sales in TelePizza net sales:

■ 22 Nov -28 Nov	7.9%
■ 29 Nov -5 Dec	9.8%
■ 6 Dec -12 Dec	11.3%
■ 13 Dec -19 Dec	11.2%

■ From Nov 22 to Dec 22, 99; 11% of the customers that ordered TeleChef products have repeated two or more times. This compares favourably with TelePizza's 7.32% repetition rate during the first month of the last four launchings.

Test Results: Sales Breakdown

■ TeleChef Sales Breakdown (in these six stores):

- Gross sales:

64% eat-in + take away	36% delivery
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- Net Sales

50% eat-in + take away	50% delivery
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- Number of products

64% eat-in + take away	36% delivery
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■ These breakdown is mainly due to the 2 for 1 promotion in eat-in and take away, and no promotions in delivery

■ Our goal is:

- Number of products

50% eat-in+ take away	50% delivery
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- Net Sales

40% eat-in + take away	60% delivery
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Test Results: Cannibalisation Effect

■ Cannibalisation: 4th Week v.s Week before test (Dec 13-19 v.s Nov 15-21)

- Growth of TeleChef products sales over TelePizza net sales: 11,2%
- Pilot stores growth of sales over average areas growth: 9,7%
- Total Cannibalisation: 1,5%



Test Results: Delivery Orders

■ Growth in number of delivery orders (1)

4th Week v.s Week before test (Dec 13-19 v.s Nov 15-21)

Growth %	Growth %	Growth %	Growth %
TOTAL MADRID 3.7%	TOTAL PONTEVEDRA 20.1%	TOTAL SEVILLA 0%	TOTAL 3 AREAS 3.6%
DR ESQUERDO 10.5%	VIGO IV 22.0%	ARJONA 5.6%	
MANUEL NOYA 6.5%		MAIRENA 22.2%	
BARAJAS -9.6%			

TOTAL 1 STORES 3.9%	TOTAL 1 STORE 2.0%	TOTAL 2 STORES 12.0%	TOTAL 6 TEST STORES 8.5%
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- In the stores with Telechef products the growth in delivery orders has been higher than the three areas average growth.

(1) The comparison is made only in delivery orders as they are more homogeneous than eat-in orders, although as there have been no offers in delivery the growth has been higher in eat-in.

Test Results: Delivery Orders

* Average Delivery Ticket: One month Period (22 Nov- 22 Dec)

	AVERAGE ORDER (only TP Products)	AVERAGE ORDER (with TCH Products)	STORE AVERAGE ORDER
DR ESQUERDO	1,849	2,002	1,879
MANUEL NOYA	1,834	2,062	1,883
BARAJAS	1,941	2,244	1,982
TOTAL 3 STORES	1,874	2,078	1,911
TOTAL MADRID AREA *	1,924		1,924
VIGO IV	1,788	2,043	1,855
TOTAL 1 STORE	1,788	2,043	1,855
TOTAL PONTEV. AREA *	1,798		1,798
ARJONA	1,850	2,076	1,889
MAIRENA	1,862	2,100	1,903
TOTAL 2 STORES	1,855	2,086	1,895
TOTAL SEVILLA AREA *	1,819		1,813
TOTAL TEST STORES	1,856	2,074 (A 11.7%)	1,897
TOTAL AREAS *	1,898		1,898

*INFORMATION REFERS TO OWNED STORES

Test Results: Delivery Orders

- Given that the average ticket that includes TeleChef products is higher, the more we increase these orders the higher the store average ticket will be.



Test Results: Cost of Goods Sold

From Nov 22 to Dec 19

TeleChef's Products Cost of goods sold	Store Cost of Goods sold
DR ESQUERDO	32.86%
MANUEL NOYA	33.55%
BARAJAS	32.99%
VIGO IV	32.20%
ARJONA	30.15%
MAIRENA	34.90%
	33.20%
	34.48%
	33.72%
	33.55%
	32.25%
	35.65%

- Telechef products have not increased the cost of goods sold of the stores
- However TeleChef cost of goods sold is higher in the stores with a higher percentage of eat-in and take away orders, given that up to now no offers in delivery have been introduced

Test Results: Consumers Survey

- Survey carried out by TelePizza's call center
- 331 consumers of Telechef products surveyed
- Date: From Nov 26, 1999 to Dec 19, 1999
- 87% would order TeleChef Products again

■ Product characteristics:

- Taste: Very good or good 89%
- Size: Very good or good 90%
- External appearance: Very good or good 92%
- Quality-price: Very good or good 64%

