High Profits from a Weird Pizza Combination

by GWEN KINKEAD

Out in the shopping centers of suburbia a grudge match is in full swing between Nolan Bushnell, chief executive of Pizza Time Theatre Inc., and Robert Brock, whose Brock Hotel Corp runs ShowBiz Pizza Place. Until the two parted ways in 1979, Brock had been Bushnell’s largest franchisee; the dispute is laced with personal bitterness that has not been softened by their out-of-court settlement last month of a long legal battle.

Bushnell and Brock are fighting for the leadership of the most perversely ingenious market segment yet created in the chain-restaurant business. Both Pizza Time and Brock’s knockoff ShowBiz make unexceptional pizza all but irresistible by surrounding it with electronic entertainment calculated to entice whole families into supermarket-size, windowless “entertainment centers.”

These places capitalize in shrewd, even Machiavellian fashion on the 20-minute order cycle that is a disadvantage for conventional pizza joints. To divert waiting parents and young children, electronic animals sing and guttural at their own silly jokes. Customers not so thrilled by skits—notably teenagers—while away the time in electronic-game arcades, having been lured in by a few free tokens given away with food orders. Those arcades, which account for roughly 25% of total sales, generate 40 to 50% of the restaurants’ profits.

The weird combination of pizza, Pac-Man, and performing robots is a powerful moneymaker. The restaurants typically spew out three to four times the sales of regular chain pizzerias, and up to nine times the profits. Since Pizza Time went public in April 1981 its stock has nearly doubled; Brock Hotel Corp shares have gained 234% in two years of public trad-

The improbable notion of combining pizza, singing robots, and video games arose in the fertile mind of Nolan R. Bushnell, 39, Bushnell launched Pizza Time in 1977. With him is one of his oversized automations, the King.

ing. Both stocks have commanded high price-earnings multiples—36 for Pizza Time, 21 for Brock.

Both companies are opening new restaurants at the rate of one every five days, mainly in the Sunbelt and Midwest. Pizza Time’s master of ceremonies, a rat named Chuck E. Cheese, leers from illuminated signs at 135 restaurants, while Billy Bob Brockhall, the quotable bear who is ShowBiz’s comical animal, boofs forth at 75 outlets. By the end of 1985, each chain hopes to have in the neighborhood of 1,000 stores; Pizza Time expects to franchise about half of its stores; ShowBiz will franchise about 65% Each admits to doubts, though, about whether the U.S. needs or wants 2,000 such establishments.

Going after the quarters

The saga of Bushnell vs. Brock—the story of how Chuck E. Cheese looked in the mirror one day and found Billy Bob Brockhall staring back—began in 1974. Nolan Bushnell was then running Atari, the pioneer maker of video games. Bushnell also wanted to enter the game-arcade business, which generates a solid stream of cash. “I wanted to operate and take in those quarters,” he says. He figured teenagers would flock to a pizza restaurant with games, but also figured they wouldn’t get far if the places became hangouts, targets of communities’ wrath that might be shut down. Bushnell conceived of banning unaccompanied teenagers and camouflaging the restaurants with entertainers, animated both for novelty and to avoid wages.

By the time Bushnell’s first animated robot—the rat Chuck E. Cheese—was ready for work, Warner Communications had bought Atari, paying Bushnell $15 million for his share. Warner permitted Bushnell to build one Pizza Time restaurant in 1977 in San Jose, California, but wouldn’t undertake more with its own money. Nothing came of talks with Holiday Inn about a joint venture, and soon after, Warner ousted Bushnell for his eccentric management of Atari. In 1978 Warner sold Bushnell the Pizza Time restaurant and the rights to the idea for $500,000.
That same year, in Topoka, Robert Brock was pondering the course of his company. Brock had built the private company he and a partner owned into the largest domestic Holiday Inn franchisee. Out of the blue, an ex-Holiday Inn executive who had joined Bushnell's new outfit suggested that Brock become a Pizza Time franchisee. Once Brock, dappled eyes on the profiles of the two restaurants, Pizza Time was operating by then, he was as good as sold. In mid-1976, he signed a co-development agreement to build as many as 200 restaurants in 16 midwestern and southern states, areas he knew from his 25 Holiday Inns and their restaurants. The contract also required Brock to sign up franchisees for another 85 restaurants.

It was a cut-rate contract—partly because of the size of the commitment and partly, says Brock, "because Nolan needed someone like us to give his ideas credibility and get Pizza Time off the ground." Brock company had 147 profits of $4.6 million and a potential line of credit for the anticipated $10-million investment. In 1977, by contrast, was financing mon-

ey-losing Pizza Time with its Atari pro-

Now, that is what Fechter calls "an inventor's dream." For creating the creatures and their sets, Bushnell's got 20% of the new company; in addition, Fechter was given the extraordinary right as minority share-
holder to declare the new venture's quar-
tet divisions in any amount he chooses up to 30% of earnings. Fechter set the first divi-
dend at 15%, and took home $45,000, which he plowed back into R&D. "Brock's a real inspiration, right up there with my mom and Dad," he confesses. He pauses, "though not as high. I'd like to invite him in on anything else I do in."

In the 25 years since their rupture, Brock and Bushnell have made several trips each to the capital markets for financ-
ing, ShowBiz and Pizza Time come to build and equip so much chain restaur-
ants. A ShowBiz unit comes in at $2.15 mil-
ton, including a $250,000 mortgage and $8,000 in 30-minute amusement-park de-

In separate lounges, full-thrust appar-
tions show casing cab acts. The enormous Dolli Dimples, a bournemouth panto-

In either place, the typical customer comes back often, every two months, and stocks up his store with a total of four spends $22 to $24 a visit. It all adds up to one of the highest sales-per-

"So far, margins aren't as bad as we expected. Claiming the high ground is important, since Pizza Time and ShowBiz compete with the other big two," says Brock. "The market is so fragmented now that Show-

The hottest part of the Brock-Bushnell race currently is the scramble for prime sites. Though each chain predomin-
ates in some region—for Brock, these include the Los Angeles, Los Angeles, and Chicago, and for Bushnell, Seattle, Detroit, and California—they are bumping into each other more and more. Fechter and Brock are not### A Prodigy of Automats

Superlatives of which he is the object trip easily from the mouth of 28-year-

old Aaron Fechter, creator of ShowBiz's animation. Fechter regards himself as the best animator in the country—and the best three-dimensional animator in the world. His aspiration is to rank with Disney, and his vehicle for that is his contract with Robert Brock. "Brock didn't tell me he'd make me rich, but he did tell me I would become one of the most successful inventors in history," says Fechter. And that's just the way he wants it: "Brock's benefiting financially from the deal—he's making money—but I'm going to change the world."  

Still, there's a touch of modesty. Al-

though Brock says Fechter is the only child prodigy genius" he knows, Fechte-

re "disagrees. "I have a lot of luck and common sense," Fechter started invest-

nating straight out of the University of South Florida, where he majored in fi-

nance. But he couldn't get money to produce a golf-cart-like car that got 90 miles per gallon, and two people wanted

Aaron Fechter, 20, produces his Show-

Biz characters in Orlando, Florida, and

wearing a colander as headgear—sings for the band that records their acts. Fechter also does several of their voices.

his next invention, a device to suck up leaves from swimming pools. Then he turned to making talking animals and scored almost immediately; his first trip to an amusement-park trade show won several orders, for which he got cash up front.

When Fechter met Brock several years back, he leapt at the chance to make ani-

mation for restaurants—in good part, he says, because Brock's scheme would provide a captive, non-paying audience for his creators and for their music, which he performs with his own rock group, "I wanted this to be a gift to the world," he says, "just like a song on the radio you can turn on for free."  

Fechter spends all his working hours on Creative Engineering. His 200 em-

ployees this year will make more than 100 sets of ShowBiz characters—12 re-

bots in all—for cost plus 10%. Despite his finance major in college, Fechter

flung and clamps up when asked about his earnings. Money seems to unnerve him: "I don't know anyone who could make as much money," he says. Fechter considers himself a workaholic, and he lets his father, Mel, Creative Engineering's treasurer and in-

house counsel, handle his finances. His biggest worry is that friends from boy-

hood who work for him will turn up if he discloses his worth—$70,000, a salary with 70% of Creative Engineering, $65,000, to say nothing of $20,000, a salary with 70% of Creative Engineering, $65,000, to say nothing of
per restaurant, or a 20% pretax margin, for Pizza Time. (The results, before payment of franchise royalties, are generally 3% to 4% better at franchise stores.) A 10% margin is about par for competing pizza chains. Part of the difference is size: ShowBiz and Pizza Time can cram 400 to 500 customers into their units, four to five times the capacity of most chain pizzerias.

But the main reason is all those quarters that go into the games. Both companies expect to exploit that end of the business still more intensely in the future. Fechter is making video games for children 2 to 12 years old, a crowd overlooked by other manufacturers. Once Bushnell’s non-compete clause with Atari expires next fall, he will be able to sell any new games he develops. “Good luck to him,” says Brock brusquely. “We’ll buy them.”

A question of longevity

Whatever he buys or doesn’t buy, Brock will be forking money over to Pizza Time for at least 14 years under the terms of their legal settlement. In effect, the arrangement is a license for Brock to use the Pizza Time concept by paying fees based on a percentage of the annual gross revenues of the first 160 ShowBiz restaurants; Brock is offsetting the payments by raising his food prices an extra 2%. Bushnell thinks the fees could total $50 million.

That’s assuming, of course, that Pizza Time and ShowBiz last 14 years. Among the financial analysts who regard the restaurants as another flash in the fast-food pan is Lee Isgur of Paine Webber Mitchell Hutchins Inc. “The concept is brilliant but I don’t think it’s long lasting,” Isgur says. “These places don’t have the best videogame arcades or the best restaurants. Anyone can replicate the idea, and what’ll happen when the novelty wears off?” Two dozen-odd competitors are already crowding in. Among them: two videogame manufacturers, Bally Manufacturing and Sega Enterprises. Once-standoffish Warner is back in the business, with two stores featuring Looney Tunes characters—Daffy Duck, Bugs Bunny, Porky Pig—and a grown-up menu that includes burgers, salads, and quiches. Several former Brock executives run a Baltimore restaurant with animated characters by ex-Disney artists and hope to become a national chain. Horr & Hardart and a fledgling outfit called Family Entertainment Concepts Inc., managed by ex-Pizza Time employees, have single-store imitations. Even K mart—which leases space for 35 units to Pizza Time and ShowBiz—has opened a couple of its own stores.

Despite his distaste for Brock, Bushnell thinks that ShowBiz is his only competitor with a prayer of lasting. But the danger of the field’s being overrun is plain. No one, not Bushnell and not Brock, knows how much the market can consume before staggering for the antacid.