The Pizza Market

The rapid growth in home delivery in the mid-1980s revitalized the pizza market and was responsible for pizza's position as the fastest-growing part of the $53 billion fast-food market. Three main segments comprised the pizza restaurant market: eat-in, carryout, and delivery. The sales for each segment are shown below:

<table>
<thead>
<tr>
<th></th>
<th>Eat-In</th>
<th>Carryout</th>
<th>Delivery</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td>$4.7 billion (47%)</td>
<td>$3.1 billion (42%)</td>
<td>$0.2 billion (1%)</td>
<td>$5 billion</td>
</tr>
<tr>
<td>1984</td>
<td>$4.7 billion (49%)</td>
<td>$4.5 billion (49%)</td>
<td>$0.1 billion (11%)</td>
<td>$9.3 billion</td>
</tr>
<tr>
<td>1988</td>
<td>$5.1 billion (49%)</td>
<td>$5.6 billion (50%)</td>
<td>$0.9 billion (10%)</td>
<td>$11.6 billion</td>
</tr>
<tr>
<td>1990</td>
<td>$6.0 billion (62%)</td>
<td>$6.0 billion (62%)</td>
<td>$1.0 billion (12%)</td>
<td>$13.0 billion</td>
</tr>
</tbody>
</table>

Source: IBIS/Castellini, Inc.

Many companies competed in more than one segment; for example, carryout was a significant percentage of most eat-in restaurants' business. At Pizza Hut, carryout accounted for 40% of the dollar volume in 1986, compared with 37% in 1982.

In 1986, while the overall pizza market expanded rapidly (because of home delivery), in-restaurant consumption of pizza was not increasing significantly. Industry observers believed that the restaurant industry was seriously overbuilt; pizza parlors seemed to be on every corner in some towns. They believed that the already intense local competition in the pizza eat-in and carryout segments would soon approach all-out warfare, as evidenced by increased use of couponing, deals, and price competition.

The Pizza Consumer

Pizza was a very popular restaurant food item, second, only to hamburgers in frequency of purchase. Pizza was predominantly a dinner food, although many consumers also viewed it as an evening snack. Consumers did not react casually to pizza, unlike their feelings for hamburgers, chicken, and fish. Consumer research had shown that pizza was a personal, almost sensual, experience for many people. Moreover, consumers generally did not believe that great pizza could be made by a fast-food chain.

Going to Market
While pizza consumption was strongest in the north-ern and eastern parts of the United States, pizza's appeal was broad based, with no area exhibiting major rejec-tion. However, tastes in pizza varied significantly by region. This presented a challenge for chains attempting to maintain product continuity while expanding into different regions.

By the early 1980s, convenience was crucial to many consumers. Two-career families often found cooking at home or eating in restaurants too time consuming, thereby increasing carryout and home delivery business. In both 1985 and 1986, consumer surveys undertaken by the National Restaurant Association identified pizza home delivery as the most important new fast food con-cept. Another study had shown that consumers generally viewed pizza as eat-at-home food. Many analysts believed that the rapid growth of the in-home video rental market, together with the increasing number of baby-boomers with small children, would further fuel the pizza delivery segment.

**Competition in the Pizza Market**

Although faced with intense competition from aggres-sive regional chains and single-unit owner-operated local competitors, Pizza Hut had dominated the eat-in pizza segment nationwide for years (Exhibit 1). Godfa-ther's Pizza, another eat-in/carryout chain, which com- peted in many of the same local markets as Pizza Hut, traditionally was perceived as Pizza Hut's most signifi-cant national competitor.

Before 1984, neither Pizza Hut nor its franchises thought that Domino's Pizza posed a serious competitive threat to Pizza Hut's leadership position in the overall pizza market. Domino's, however, had grown from sales of $626 million in 1984 to $1,085 billion in 1985, and to $1.55 billion by the end of 1986. In 1985 the chain opened 954 new outlets (bringing the total to 2,839)—the highest one-year total ever recorded by a food service company. Two-thirds of Domino's outlets were fran-chised; the company used its company-owned stores as sites for required franchise training. Although there were several large franchisees operating many units all over the United States, most of the 600 franchisees in early 1986 owned only one or two stores. While some of its out-lets had carryout windows, Domino's was essentially a delivery-only chain. Domino's management believed the large percentage of carryout business in the industry was especially vulnerable to Domino's delivery strategy.

Pizza Hut first experienced the effects of Domino's expansion in its company-owned stores. While Pizza Hut's franchises had exclusive rights to most of the smaller markets, Pizza Hut's company-owned stores controlled most of the large, densely populated metro-politan markets. Domino's had initially focused its national expansion on those large metropolitan markets. By late 1985, Pizza Hut's senior management was con-vinced that Domino's dominance of the fast-growing delivery segment was the major threat to Pizza Hut's continued leadership of the overall pizza market. By late 1986, Domino's had begun to extend its expansion into the smaller towns generally controlled by Pizza Hut fran-chises. Domino's clearly intended to gain total market leadership while maintaining its dominance of the deliv-ery segment.

**Pizza Hut, Incorporated**

On June 15, 1958, Dan and Frank Carney, two college students from Wichita, Kansas, opened the first Pizza Hut restaurant. It was a startling success. By the follow-ing February, the Carney brothers had opened two more restaurants and had begun to develop plans for the first franchised outlet. The chain grew rapidly, with 43 restau-rants opened by 1963 and 296 by 1968. Pizza Hut went public in 1969, and in 1977 was acquired by PepsiCo, Inc. In 1981 Pizza Hut became the largest pizza restau-rant chain in the world in both sales and number of restaurants. Sales reached $1 billion in 1981; by Decem-ber 1986, Pizza Hut, still headquartered in Wichita, had a total of 5,025 domestic units and annual sales of almost $2 billion (Exhibit 2).

Since the 1960s, Pizza Hut restaurants were character-ized by a distinctive freestanding design and familiar red roof (Exhibit 3). All Pizza Hut restaurants were full-service, eat-in/carryout family-style operations seating about 60 to 90 customers and normally open from 11 a.m. to midnight. Although the menu had changed over the years, pizza was always the main product in Pizza Hut restaurants. The company paid careful attention to operational efficien-cy, and continued to offer a high-quality product at a premium price. A constant stream of new product intro-ductions seemed to invigorate consumer interest, but many of these were concerned by the increased cost of operating caused by the expanding menu.

For more than 20 years, the Pizza Hut franchises had taken the lead in marketing. In the early 1980s, however,
the company further strengthened its corporate marketing department and began developing comprehensive national and local market strategies. By 1986, the company was developing and implementing systemwide corporate marketing programs and realizing leverage from national TV advertising.

### The Franchise System at Pizza Hut

Franchising was an integral part of the Pizza Hut strategy since the corporation’s founding. In 1968, there were 293 franchised restaurants and only seven company-owned restaurants. Over the next seven years, the company built new stores and acquired many more (including the acquisition of the 225 units of a large Pizza Hut franchisee). By the mid-1970s, there were almost as many company-owned as franchised units. In December 1986, 135 individuals, partnerships, and/or corporations operated 2,395 Pizza Hut system restaurants and 96 delivery-only units as franchisees. Meanwhile, the company itself operated 2,173 restaurants and 361 delivery-only units.

Many of the original franchisees, whose holdings had grown with the company, were still part of the system in 1986. Sixty percent of all franchised units were controlled by franchisees whose main offices were still in Wichita. In the Pizza Hut system, exclusive franchisees were granted for specified market areas. Unlike franchise systems characterized by single-unit owner/operators, most Pizza Hut franchisees were large companies with diversified holdings, sometimes including other food service franchise units like Kentucky Fried Chicken and Long John Silver. Of the 135 franchisees, almost two-thirds operated 10 or more Pizza Hut system restaurants in 1986. Except for minority opportunity programs, no new franchise areas had been offered to the public since 1971. When a franchisee chose to sell its holdings, they were purchased by the company or another franchise holder.

Franchise rights and obligations were specified in formal franchise agreements. Under the agreements, each franchisee was obligated to develop its exclusive market area in accordance with a five-year development schedule. Essentially, the agreement required the franchisee to open an agreed-upon number of new restaurants during the first year of the agreement, an agreed-upon number during the second year, and so on, up to year five. The development schedule represented franchisee commitment to significant continuing investment in the business. After the five-year period expired, the company could negotiate a secondary development schedule with the franchisee to open additional restaurants in the area, if the company deemed it practicable. Although franchise failure to comply with either development schedule entitled the company to franchise other or to open company-owned restaurants in the previously exclusive area, this had never been necessary. In no case would there be a restaurant established within two miles of an existing franchisee restaurant.

Franchisees paid Pizza Hut an initial fee of $15,000 for each system restaurant they opened. Franchisees also paid the company an ongoing franchise fee of 4% of monthly gross sales. The company or franchisee invested about $466,000-$816,000 to open each eat-in/carryout restaurant. By contrast, delivery-only units required an estimated $128,500-$198,500 investment. However, by the time one included delivery vehicles, training, additional advertising, and the company’s central order-taking computer system, the company’s investment in a company-owned delivery unit was about equal to that of a traditional restaurant. Franchisees investing in delivery-only units typically did not buy vehicles and did not always adopt the company’s computer-ordering system (see Exhibit 4 for expenses of company-owned delivery units).

### The International Pizza Hut Franchise Holders Association

The International Pizza Hut Franchise Holders Association (IPHHFA) was formed in 1967 to “solidify the national image of Pizza Hut and to further product loyalty,” and to “devise the most appropriate use of the funds available for national advertising.” By 1986, its role had been extended to render many other services to franchisees (e.g., accounting services, group life insurance, workmen’s compensation insurance, credit union). Franchisees were required to become members of the IPHHFA. The IPHHFA communicated with the company regularly through the IPHHFA board of directors. The IPHHFA employed a professional staff headed by Gerald Aaron, president, who acted as intermediary between the board and the company. He directed the association the broad policy areas of marketing, finance, and administration. Joint advisory committees (with franchisee and company members) were formed in 1985 to further enhance communication between the company.
and the franchisees on the issues of human resources, delivery, products, and buildings and equipment.

The IPHFHA was reorganized in 1975, and the Advertising Committee was formed to determine and control the amount, kind, and quality of national advertising and sales promotion to be provided . . . for Pizza Hut and its franchisees." (In 1981 the role of the Advertising Committee was continued under the new franchise agreement.) Four marketing professionals made up the Advertising Committee, two representing the company and two representing the franchisees. IPHFHA Members voted on funding for national advertising and other IPHFHA programs. The company, although not a member of IPHFHA, was contractually bound by the franchise agreement to contribute at the same rate as the franchisees. In 1986, the current assessment was 2% of the first $28,000 of monthly sales for each restaurant and 1% of all monthly sales above $28,000. The Advertising Committee controlled the entire advertising budget, and was also responsible for hiring and firing the national advertising agency.

Market area advertising was managed by local co-ops consisting of all of the franchisees (and the company if applicable) operating restaurants within a particular market area. All co-op members, franchisees and company alike, were required to make contributions to the co-op for advertising in their area in the amount of 1% of monthly gross sales (in addition to the contributions to the national advertising fund). All disputes arising within co-ops were arbitrated by the Advertising Committee.

In addition to ad hoc interaction between the company and its franchisees at regional manager meetings, there were two general systemwide meetings each year. Franchisees set the summer meeting agenda and the company set the winter meeting agenda. Company managers also regularly met with the board of IPHFHA and with the franchisees on the advisory committees.

Delivery at Pizza Hut, Inc.

For many years, the prospect of entering the delivery market worried Pizza Hut senior managers. Delivery units might cannibalize the traditional restaurant business, causing reduced profit margins. In the summer of 1984, however, Pizza Hut began exploring the possibility of such an entry. Because it was believed that the addition of delivery service to traditional eat-in restaurants would create unreasonable operational bottlenecks; the solution for Pizza Hut management was to enter the delivery market with separate delivery-only units (i.e., with no eat-in or carryout facilities). These units would be considerably smaller than the traditional restaurant facilities and would not require parking space or highly visible locations (Exhibit 3); occupancy costs therefore would be about 2.1% of sales rather than 6% for the standard eat-in restaurants.

In 1985 a small delivery task group was formed at Pizza Hut and began operating company-owned delivery units in several markets. Their idea was to open a cluster of delivery-only units in each market and keep their costs as low as possible because of the small expected margins (Exhibit 4). There was considerable resistance to the delivery concept at all levels within the company, and company restaurant managers and supervisors in the markets where delivery units had been opened complained bitterly about the adverse effect on their sales. Nevertheless, Pizza Hut management was becoming increasingly concerned about Domino's rapid expansion and deemed entry into the delivery segment necessary if the company was to maintain its market leadership position.

By August 1985, eight markets had been opened with a total of 51 company-owned delivery-only units. In the well-developed markets—Atlanta, Georgia, and Norfolk, Virginia—customers called a single phone number. Orders were then sent by facsimile machine to the appropriate delivery unit. Although the system was relatively cheap, as the number of units grew, it became more and more unmanageable, and the "lux" machines presented a significant bottleneck. In late summer 1985, senior Pizza Hut managers visited the Norfolk market and became convinced that, with a number of operational adjustments, the delivery concept was workable, offered tremendous potential growth, and should be pursued. The company postponed further expansion into new markets while it concentrated for the development of a computerized central ordering system and perfected other aspects of the delivery concept.

The computerized central ordering system, called the Customer Service Center (CSC), allowed customers in a particular market to call a single number to place an order. The caller first was asked his or her phone number and the system ascertained whether the caller had ordered before. If so, the operator would verify the caller's name and address and ask if the customer would like the same type of pizza previously ordered. The order would then be forwarded automatically to the appropriate delivery unit where a terminal would receive the order information.
Customers would pay approximately 10% more for a small, medium, or large pizza, but would get more as well. This "upsizing" would increase the average check price and gross margin, thereby helping to defray the cost of free delivery and the Customer-Service Centers. In early 1986, Pizza Hut was reorganized to reflect the increasing importance of autonomy of the delivery segment (Exhibit 6). A senior vice president of operations managed all traditional restaurant operations, while Senior Vice President Allen Huston was general manager of delivery. Still another senior vice president led the marketing function for the traditional restaurants. Delivery had its own separate marketing department reported directly to Allen Huston. Even the regions into which the country was divided were different for delivery and the traditional restaurant business. Although there was some experimentation with alternative delivery concepts (e.g., no upsizing in some markets during the spring and summer of 1986, the marketing function for the delivery group was not fully operational until July. Huston concentrated primarily on the operational details surrounding the opening of new delivery units rather than on refining the Pizza Hut delivery concept. In the first half of 1986, Pizza Hut doubled the number of markets where it operated delivery units and had almost quadrupled the total number of units (Exhibit 6). Those delivery units were predominantly in metropolitan areas—where most of the company's markets were. The initial units opened were in markets with high levels of traditional restaurant penetration and high "per-store-average" (PSA) sales. A second group, opened later in 1986, were in low penetration and low per-store-average sales markets.

Throughout 1986, Pizza Hut managers on the traditional restaurant side of the business continued to be concerned about competition from the Pizza Hut delivery operation, as well as from Domino's. Huston and other managers in the delivery operation, however, believed that delivery was expanding the market by including people who would not go to a restaurant for pizza. They argued that consumers who ate pizza in restaurants and those who had pizza delivered sought very different benefits, and that delivery did not compete directly with traditional restaurants. Moreover, the adverse effects of Pizza Hut delivery units on traditional restaurant sales growth appeared to be more pronounced in markets where there was weak sales growth already; in strong markets the effect was short lived. As Hennemann noted in early 1986, "We do not yet know how great a factor this overlap will be. But what we do know is that in
many cases our restaurant business has actually grown after our delivery units have entered the market." In the words of another senior Pizza Hut manager: While it is true that we often are serving the same cus-
tomers, we are serving them on totally separate dining occasions. When we introduce delivery to a market, we get the business of customers who probably were ordering a competitor's pizza simply for the conve-
nience of home delivery.

As for personnel, it was clear that needs of the deliv-
ery business were significantly different from those of the traditional restaurant business. Pizza Hut restaurant
managers were trained to manage the "total customer experience" and, because of the isolation from cus-
tomers, some restaurant managers did not think they would enjoy running a delivery-only unit. While many
production and operation functions would overlap, store managers found it hard to see how career paths could cross over from traditional full-service restaurants to delivery units or vice versa. Moreover, moving as quickly as it had into new markets, Pizza Hut found it difficult to manage at the store level. Ninety percent of
the people working in the delivery business were new, and delivery presented unfamiliar operational demands in the areas of driver management, travel area definition, and order taking.

The Franchisees' Experience with Delivery

A few Pizza Hut franchisees had been offering delivery
unsuccessfully for 20 years. In the early 1980s, the company
consistently attempted to dissuade franchisees from offering delivery. Nevertheless, the number of small-
town franchisees delivering pizza to college dormitories and military bases from their traditional restaurants had begun to increase. In some isolated cases franchisees
looked local competitive environments that they believed
needed a new offering of delivery. By 1982, about 25 fran-
chises op-rated delivery services from a total of about

75 standard eat-in restaurants.

Most franchisees that entered the delivery segment did so by retrofitting, existing eat-in restaurants to allow
for delivery "out the back door" (Exhibit 6 shows the number of franchisees owning retrofit and delivery-only
units from 1994 to 1986). They found, however, that
retrofitting significantly increased demands on the
restaurant manager and required much greater local
management skills. Because of operational bottlenecks,
some franchisees lost money on the delivery business and
ceased delivery operations. The company believed this
supported its concept of opening separate delivery-
only units.

The 1985 majority of Pizza Hut franchisees
saw no reason for delivery. They faced little or no compe-
tition in their market from the major chains offering
delivery, and were less interested in overall market share
battles than the company seemed to be. Sixty-five per-
cent of all franchised restaurants were in towns with
populations under 50,000 people, and delivery in those
rural areas was not as easy to justify economically as in
more densely populated markets. In late 1985, when the
company changed its position completely and began to
encourage franchisees to open delivery-only units, most
franchisees were not interested in doing so.

In November 1985, the company announced to fran-
chisees that it interpreted franchise agreement develop-
ment schedules to include delivery and, therefore, the
company had the right to require franchise develop-
ment of delivery units in their markets. The company
announced that it would not exercise that right for one-
and-a-half years while it perfected the concept, but urged
franchisees to begin developing delivery-only units
immediately.

The franchise community's response was quick and

clear. Most franchisees saw no reason to risk business in
their eat-in restaurants by expanding into the delivery
market. They denied that the development schedules
allowed Pizza Hut to require them to open delivery
units. They openly expressed their disagreement with
the company's delivery concept, especially regarding
uppricing (refers to by one franchisee as "op- pricing"). They also questioned the necessity of the computerized
Customer Service Centers and the delivery-only units
(some franchisees wanted to use existing restau-

rantts, and others wanted carryout allowed in the deliv-
ery units). Significant tension arose between the com-
pany and its franchisees. At a heated IPHEH board
meeting in December 1985, board members and Pizza
Hut senior management recognized that they had been
concentrating too much on each other and not enough
on Domino's. They agreed to operate temporarily under a
"yellow flag" plan (an automobile racing term refer-
ing to the period when each side continues to operate as
before without either side trying to improve its rela-
tive position).

The company's uppricing concert continued to be a
focal point of disagreement. Although Pizza Hut sug-
gested prices, the franchisees were free to price their
The August Franchisee Meeting

As the August 1986 franchisee meeting drew near, Pizza Hut management decided it was time to press again for the full involvement of all franchisees in systemwide entry into the delivery market. Pizza Hut operated delivery units in 16 markets, with a total of 284 company-owned units. The company had hired and trained over 10,000 people. The flagship Norfolk market, which had experienced difficulties, was now profitable. The first full-year results from the operating units were impressive, and Delivery General Manager Huston was confident that the company could make a good business case for delivery.

Huston and the delivery group gave an extremely upbeat presentation of the delivery data to franchisees at the recent meeting. Their purposes included (1) to convince franchisees that the time had come to give total support to the delivery effort, (2) to sell the company's delivery concept to the franchisees, and (3) to successfully launch the announcement negotiation process that was to begin in earnest after the meeting. While many franchisees remained adamantly opposed to delivery, others were becoming convinced that they could, in fact, increase their overall income with delivery even if they would face decreased average margins. While the idea of delivery became more acceptable, however, there was still little support for the particulars of the company's delivery concept.

The Current Situation

As the negotiations for an amendment to the Franchise Agreement continued into the fall of 1986, competition in the delivery market intensified tremendously.
nowide, Domino’s increased advertising 100% over the previous year. Moreover, much of its advertising was specifically focused on the markets Pizza Hut was attempting to open for delivery. Domino’s spent an average of 68% more on advertising in those markets than in others. Moreover, Domino’s had proven to be an able competitor with satisfied customers and an inexperienced but highly enthusiastic franchise system. It met Pizza Hut head-on in each market Pizza Hut entered by focusing on execution, quality, advertising, and price.

Discounting became even more prevalent in late 1986. Fifty percent of Domino’s pizzas were sold on deal. Pizzeria’s joined Little Caesar in offering two-for-one deals. Oldfather’s and Pizza Inn launched their own delivery services also with deep price discounts. Delivery proved to be much more price, coupon, and deal sensitive than the traditional restaurant business.

Of the 19 Pizza Hut company-controlled markets open in December 1986, three were profitable. At the unit level, of the 361 company-owned operating delivery units, 194 were profitable. Company-owned delivery units that had opened early that year performed well from both a sales and profit perspective. The fierce competitive environment in markets opened later that year, however, led to slower sales growth and greater operating losses than expected for those units. For example, in one market, per-store average weekly sales rose to $6,600 after three weeks. Domino’s had responded with two-for-one deals for three months, and the per-store average weekly sales dropped to around $4,850. Moreover, in markets with greater than $8,000 per-store average weekly sales in traditional restaurants, Pizza Hut delivery units averaged $7,300; in markets where traditional per-store average was less than $8,000, delivery units averaged only $4,225. Overall, the average weekly sales per delivery unit in December was $6,900.

Huston believed that some of the markets were overbuilt with delivery units and that Pizza Hut was getting all the sales that could be expected from those units. The ratio of traditional restaurants to potential customers averaged 1 restaurant to 70,000 people, while the delivery units averaged 1 unit to 40,500 people.

Consumer research had shown that the standard Pizza Hut pizza served in the traditional restaurants was not as well-suited to the delivery environment, causing quality to suffer. Pizza Hut research and development managers were confident that they could solve that problem by developing a new product designed especially for delivery. This would involve an entirely different production process than that used currently in the traditional restaurants.

Meanwhile, the number of franchisors who had introduced delivery was growing rapidly. Franchisors who in August have told Aaron that delivery would be "over their dead bodies" were inviting him to visit their delivery operations. Moreover, many franchisors who had introduced delivery were doing significantly better than the company-owned stores. Eighteen franchisors opened a total of 65 delivery-only units in 1986, bringing the overall total to 96. All but two units with over seven months’ experience were profitable. In addition, by December 1986, 292 traditional restaurants had been retrofitted by franchisors to provide delivery service. Because the delivery operations were co-located with the in-and-carryout operations in the retrofitted restaurants, it was difficult to estimate their profitability, however, the franchisors were to be pleased with the results so far. The franchisor's success with delivery was attributed to the fact that they had developed markets where they were already strong and had carefully picked the trade areas with the highest potential. They had also priced more competitively, and only 20% had uplifted. Most kept costs low by having those orders go direct to each separate unit instead of using Customer Service Centers.

The wintry franchise meeting was scheduled for January, and Retnauer, Huston, and Baxter had less than a month to decide how to proceed. Before deciding where to do at that meeting, they wanted to review the overall strategy and likely profit impact on Pizza Hut's delivery
<table>
<thead>
<tr>
<th>Brand</th>
<th>Systemwide Sales (in millions)</th>
<th>Units</th>
<th>Average Check/Person</th>
<th>Delivery</th>
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</thead>
<tbody>
<tr>
<td>Pizza Hut</td>
<td>1,934</td>
<td>5,075</td>
<td>$9.89</td>
<td>Separated delivery units plus franchise add-on delivery out of restaurant</td>
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<tr>
<td>Domino's</td>
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<td>3,966</td>
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<td>Pizza Inn</td>
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<td>Godfather's</td>
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<td>$9.75</td>
<td>Add-on delivery out of restaurant</td>
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Adapted from Nation's Restaurant News
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<td>Company</td>
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<td>- PSR sales (A)</td>
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<td>- (Delivery)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- PSR sales growth</td>
<td>(3.1)</td>
<td>4.7</td>
<td>11.8</td>
<td>8.0</td>
<td>9.8</td>
<td>1.8</td>
<td>2.0</td>
<td>(2.0)</td>
</tr>
<tr>
<td>- Price</td>
<td>3.4</td>
<td>8.1</td>
<td>9.0</td>
<td>6.8</td>
<td>3.5</td>
<td>3.1</td>
<td>3.4</td>
<td>8.0</td>
</tr>
<tr>
<td>- Total</td>
<td>3.3</td>
<td>12.8</td>
<td>20.8</td>
<td>14.6</td>
<td>13.7</td>
<td>9.9</td>
<td>5.4</td>
<td>(11.2)</td>
</tr>
<tr>
<td>- Net sales (A)</td>
<td>394</td>
<td>39x</td>
<td>619</td>
<td>550</td>
<td>576</td>
<td>766</td>
<td>836</td>
<td>920</td>
</tr>
<tr>
<td>- Net sales growth (%)</td>
<td>18.0</td>
<td>19.3</td>
<td>18.8</td>
<td>21.9</td>
<td>13.3</td>
<td>10.0</td>
<td>11.3</td>
<td>10.9</td>
</tr>
<tr>
<td>- Total revenue (A)</td>
<td>495</td>
<td>568</td>
<td>489</td>
<td>588</td>
<td>599</td>
<td>795</td>
<td>867</td>
<td>967</td>
</tr>
<tr>
<td>- ROA (%)</td>
<td>3.5</td>
<td>6.1</td>
<td>6.9</td>
<td>14.4</td>
<td>21.7</td>
<td>16.9</td>
<td>15.3</td>
<td>17.4</td>
</tr>
<tr>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Franchises</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- PSA sales (A)</td>
<td>378</td>
<td>433</td>
<td>53</td>
<td>613</td>
<td>715</td>
<td>799</td>
<td>928</td>
<td>1,045</td>
</tr>
<tr>
<td>- net sales (A)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

*Based on data from GCI/First Enterprises, Inc.

Total number of U.S. domestic units in all mids: restaurants, delivery, and mobile open 10 year.

PSA: Per Share Average: annual average computed by dividing total sales for each four-week sales period by number of weeks open during that period and then aggregating across all 13 such periods.

Revenue on Area/avg: calculated as earnings divided by area's average net asset base.
<table>
<thead>
<tr>
<th></th>
<th>Company-owned Traditional Restaurant</th>
<th>Company-owned Delivery Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross sales</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Advertising, discounts, promotions, and allowances</td>
<td>16.5%</td>
<td>18.5%</td>
</tr>
<tr>
<td>Cost of sales &amp; labor</td>
<td>48.1%</td>
<td>46.2%</td>
</tr>
<tr>
<td>Semivariables &amp; premiums</td>
<td>8.7%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Vehicles²³</td>
<td>—</td>
<td>6.1%</td>
</tr>
<tr>
<td>Occupancy costs</td>
<td>6.0%</td>
<td>2.1%</td>
</tr>
<tr>
<td>General and administrative</td>
<td>7.2%</td>
<td>7.2%</td>
</tr>
<tr>
<td>Customer service center costs</td>
<td>—</td>
<td>5.9%</td>
</tr>
<tr>
<td>Net field contribution</td>
<td>13.1%</td>
<td>8.8%</td>
</tr>
</tbody>
</table>

²Percentage reflects an assumed 50,000 weekly store. As weekly sales decreased below 50,000, expenses as percent of sales increased significantly. At approximately 97,000 weekly, Delivery Unit net field contribution was 0.
³Cost of sales tended to be lower in the Delivery Units due to a combination of upsizing and higher prices per order. Labor costs for Delivery Units did not include order-taking expenses that were reflected in the Customer Service Center costs.
⁴Semivariables refers to utilities, uniforms, and other operating supplies. Premiums refers to items such as special glassware or tags that were given away or sold below cost to promote the sale of a particular menu item.
⁵Vehicle expenses reflect a mix of driver- and company-owned vehicles. Eighty percent of the delivery vehicles were owned by the drivers, who were reimbursed for their use per trip.
<table>
<thead>
<tr>
<th></th>
<th>Company-owned</th>
<th>Franchise-owned</th>
<th></th>
<th>Franchise-owned</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Traditional Restaurants</td>
<td>Delivery-only Units</td>
<td>Traditional Restaurants*</td>
<td>Retrofit</td>
</tr>
<tr>
<td>August 1984</td>
<td>2,011</td>
<td>11</td>
<td>2,089</td>
<td>70</td>
</tr>
<tr>
<td>December 1984</td>
<td>2,025</td>
<td>16</td>
<td>2,137</td>
<td>98</td>
</tr>
<tr>
<td>August 1985</td>
<td>2,046</td>
<td>51</td>
<td>2,155</td>
<td>131</td>
</tr>
<tr>
<td>December 1985</td>
<td>2,004</td>
<td>78</td>
<td>2,352</td>
<td>180</td>
</tr>
<tr>
<td>August 1986</td>
<td>2,208</td>
<td>284</td>
<td>2,277</td>
<td>241</td>
</tr>
<tr>
<td>December 1986</td>
<td>2,173</td>
<td>364</td>
<td>2,385</td>
<td>282</td>
</tr>
</tbody>
</table>

*Domestic U.S. restaurants and delivery units only

*Tolls for franchise-owned traditional restaurants include those restaurants retrofitted to provide delivery service.