Ms. Gail Zambrano  
Food Institute Digest  
P. O. Box 523  
Fair Lawn, N.J. 07410  
June 6, 1977

Dear Ms. Zambrano:

The April 30th edition of the Food Institute's Weekly Digest featured an article "Fast Food Pizza Industry Still Growing, Led by Pizza Hut", which mentioned Shakey's Incorporated, a subsidiary of Great Western United Corporation. In a recent phone conversation with you, I proposed that Great Western United provide your publication with further details concerning Shakey's new developments and innovations. This article describing Shakey's unique position in the pizza industry is enclosed for your information.

Should you have any questions concerning the article or Shakey's, please contact me. Thank you.

Sincerely,

Maripat Murphy  
Corporate Communications
Attn: Gail Zambrano

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Fast Food Pizza Industry Still Growing, Led by Pizza Hut

Perhaps because of the fragmentation of the pizza and Italian restaurant industry, exact measurement of the fast food pizza business seems to be hazardous at best. However, in this analysis an attempt will be made to put into some order the available data on the industry to determine its size, the individual company sales leaders and their market share, as well as the number of units they operate, along with menu expansions and changes, and diversification into or withdrawal from other areas of fast food.

Although there seems to be no current bona fide measurement of the size of the fast food pizza industry today, a recent U.S. Department of Commerce study placed 1976 sales at some $1.1 billion, and with an estimated growth of 24%, 1977's industry sales are estimated at almost $1.4 billion. Some 46 major firms are listed as part of the industry (although only those currently engaged in franchise licensing are included), with 5,849 units being operated in 1976 while 6,756 are expected to be in operation this year — a 16% increase. Sales through pizza chains have gone from about $300 million in 1972 to more than $1 billion currently, tripling during the four-year period.

Pizza's rate of sales is allegedly the highest of eight fast food industry categories recently studied, with the exception of seafood chains which experienced a five-fold increase in sales over the same period (although some claim the Mexican fast food market is growing most rapidly). Fast food pizza units are estimated to have done average sales per unit (both company-owned and franchised) of $192,847 last year, with a 5% gain expected this year to $203,330. Pizza units receive 56% of sales from white collar households, 33% from blue collar and the remaining 11% from other groups.

Undoubtedly the industry leader is Pizza Hut, Inc., which registered 1976 fiscal sales (through Mar. 31) of $244.8 million. On the basis of its six-month sales figures through Sept. 30, Pizza Hut System captured 3.4% of the total $14.5 billion chain restaurant segment of the foodservice market, with company-owned units share placed at 2.1%. However, on the basis of only pizza chain restaurant sales, Pizza Hut accounted for approximately 22% of 1976 sales. Pizza Hut, where franchising now is restricted to existing franchise holders, is also the only pizza chain with enough units (2,679 system-wide, including 115 foreign units at the end of last year) for a television network advertising campaign and one of only five foodservice chains of any type that currently is on national television. Pizza Hut was the fourth largest foodservice TV advertiser in 1976 with $7.5 million (out of a total ad budget of $8 million), up from $6.2 million spent in 1975.

Other major industry factors include Pizza Inn, Inc., the second largest operator and third largest franchisor of pizza restaurants in the U.S., with 1976 revenues of $51.8 million and 525 units operating at the end of 1976; Saga Corp.'s Straw Hat Pizza restaurants with estimated sales of $48.5 million, based on 202 total units (123 company-owned and 79 franchised), with average store sales volume per year of $240,000; Shakey's, a 360-unit subsidiary of Great Western United Corp., with 1976 sales pegged at $24.8 million and a total advertising budget for 1976 of about $2.5 million; Domino's Pizza, Inc., with estimated sales of $24 million derived from 35 company-operated and 85 franchised units; Sir Pizza International, operator of Sir Pizza, Mr. Pizza and Pizza King restaurants, of which 25 are company-operated and 127 are franchised, with estimated sales of $14 million; Pasquale Pizza Co., with 1976 sales of $12.6 million derived from 234 locations in 19 states. Another relatively large factor is Cassano's Inc., which operates 1976 sales of $24 million, and is also the only pizza chain with enough units (2,679 system-wide, including 115 foreign units at the end of last year) for a television network advertising campaign and one of only five foodservice chains of any type that currently is on national television. (Where allowed by local law, wine has been a specialty item offered by pizza restaurants). Saga's Straw Hat units are offering thicker deeper dish pizza and a line of sandwiches formulated from pizza dough that are called Hot Hats. Shakey's is also offering thick crust pizza and deli pizza, and is also trying to come up with a chain-wide sandwich program. Pasquale Pizza is offering pasta and sandwiches in addition to pizza. Cassano's, previously thought of as a carryout pizza operation, now has expanded its menu to include seafood. Also experimenting with new products is Dino's Inc., 135-unit Garden City, Mich., chain, whose take-out operations offer square (deep dish) and round pizzas, spaghetti, ravioli and submarine sandwiches; sit-down dining facilities are also offered by the firm at its Dino's Parlors, which provide menu selections of lasagne, mostaccioli, veal parmesan, antipasto, salad bar, beer, wine and sometimes liquor.

Menu expansion to include breakfast is so far not being attempted or even mentioned by pizza restaurants. In fact, the National Restaurant Association (CREST) figures reported by the National Restaurant Association indicated no distribution of dollars for breakfast meal occasions at pizza restaurants for the period December 1975 through February 1976. Pizza Hut notes that it has three distinct revenue periods: lunch, dinner and late night, providing unit sales of 20%, 40% and 40% respectively.

At Pizza Hut, expansion has also meant attempting new concepts, such as hamburgers and Mexican food. Pizza Hut abandoned the hamburger concept after losing money, and more recently withdrew from the Mexican restaurant endeavor by completely abandoning its Fiesta Cantina. However, testing is continuing of the Applegate's Landing operation (two company-owned and five franchised units), which is described as a more extensive pizza restaurant.