

The Arts

How the two guys who founded California Pizza Kitchen kept their unlikely partnership—and their company—alive

By Mark Lacter



Photographs by Michael Kelley

Larry Flax and Rick Rosenfield are describing their one giant disagreement as cofounders of California Pizza Kitchen, the battle that lasted 22 years. As you might guess, it was about food. Rosenfield kept trying to introduce dinner entrées like chicken *piccata* and sautéed salmon as a way of nudging more customers into the restaurant at night. Flax countered that CPK would lose its identity if it strayed beyond pizza, pasta, and salads. “I chipped away at him,” Rosenfield recalls over lunch in the company’s 11th-floor conference room, a view of Los Angeles International Airport in the background. First he got his partner to sign off on appetizers, then soups. Finally Flax relented on the chicken and fish—but only if the side dish was pasta and not a baked potato or french fries. Treaties have been negotiated with less fervor.

Flax and Rosenfield are superstars in the world known as fast-casual dining—fancier than fast food but less formal than places with cloth napkins. You might know the story: Two frustrated attorneys decide to ditch the law in the mid-1980s and invest \$550,000 in a restaurant in Beverly Hills. The idea, by now a dining cliché, was to riff on the gourmet California pizzas made famous by Wolfgang Puck. But it



was more than just pizza. Flax and Rosenfield packaged a California-style experience that included an open kitchen, affordable prices, and a solicitous staff. What resulted was a 240-store global enterprise in 30 states and nine foreign countries that last year generated revenues of \$633 million.

But these are challenging times in the restaurant business. With gasoline approaching \$5 a gallon as of early summer and home prices likely to stay in the tank well into 2009, folks are thinking twice about springing for a Mango Tandoori Chicken Pizza or Kung Pao Spaghetti. When money gets tight, eating out is one of the first casualties—and starting late last year, the pullback has been evident in CPK's numbers.

You can learn a lot about a company and the people who run it when the numbers go south. CPK is being forced to take stock of how its business gets done—and then figure out how to do it cheaper and more efficiently. Getting a new supplier of pizza boxes, for example, has reduced paper costs. Some of the cheese used in making pizza was paid for at a lower price through a technique called hedging. The company also experimented with a gift promotion to drive up customer traffic (first prize was \$25,000 in cash). All told, sales in the January-March quarter were up a paltry 0.4 percent, which is actually a little better than expected.

Adversity is part of operating any business, of course, and Flax and Rosenfield have had their share of temblors. That they're still running the show as cochairmen, co-chief executives, and copresidents says a lot about the resilient CPK formula as well as their friendship. "Staying together is a big contributor to the success they've had," says Darren Tristano, executive vice president of Technomic, a restaurant consulting company. Flax insists there's no way either one of them could have done it alone. "We would have collapsed out of pure fear," he says. "If we didn't have each other, we would have."

They claim they're not joined at the hip, but you would never know it. Rosenfield, with a slight build and a soft-spoken manner that borders on monotone, admits to not being the workaholic type. But every morning he goes through the previous day's figures and then relays the highlights to his partner. He's the numbers guy. The taller, white-haired Flax, who sounds a little like Dick Van Dyke (and also enjoys his days off), calls himself "the right brain." He handles more of the marketing and design stuff. They'll seldom go a few hours without talking (they can see and hear each other from their offices). To complete the circle, Rosenfield's wife, Esther, has a creative bent, just like Flax, and Flax's wife, Joan, is more analytical, just like Rosenfield. The four socialize frequently and even vacation together. Asking Flax and Rosenfield how they've managed to stay together all these years is like seeking wisdom from an old married couple.

"There's no scorecard, like I gave up one and you owe me one. That never happens," says Rosenfield, who is 63.

"I might get irritated if he doesn't see my point," says Flax, who is 65.

"We don't really fight," says Rosenfield.

"We stay on point. It's not about trying to win the argument with cheap shots," says Flax.



"We wear our hearts on our sleeves," says Rosenfield.

From the beginning they had envisioned operating a large chain, but the start-up was shaky. In 1985, Flax and Rosenfield pooled \$200,000 in bank loans and savings to lease space on the quieter, less desirable side of Beverly Drive, only to realize that their investment wouldn't pay for fixtures and unexpected expenses. So they persuaded friends to cover the remaining \$350,000. Almost immediately the restaurant was mobbed, and more investors were brought on as the company expanded throughout Southern California. "This was lightning in a bottle," says Santa Monica attorney Robert Kahan, who handled their legal work and was an early investor. "People were trying to get in. Even my stepfather came to me and asked if I could get him in." By 1992, there were 26 CPKs, and the two partners were feeling pretty good about themselves.

The goal of any restaurant chain is to keep building restaurants. More units generate additional customers and increase sales. But expansion can be tricky. You need to find the right location (higher-end neighborhoods in this case), leave enough time to train everybody, and adequately pepper the local media. In the early years CPK did a good job of modulating growth, but all that changed after PepsiCo paid nearly \$100 million in 1992 for 67 percent of the chain, with Flax and Rosenfield each pocketing \$17.5 million. This was a huge price, probably more than CPK was worth at the time, and the pair felt obliged to keep adding stores to raise the company's value. "Pepsi came to us and said, 'You have a blank check,'" says Rosenfield.

They planned on 15 stores in the first year and 28 in the second, a swifter pace than Flax and Rosenfield were accustomed to. The result was disastrous. Restaurants sprouted in areas where nobody knew CPK, and diners didn't want to pay a few extra dollars for pizza. "We made the classic mistakes," says Rosenfield, who calls it their "*Field of Dreams* period—build it and they will come. Except that they didn't." PepsiCo had tens of millions of dollars in debt on its hands and quickly put the brakes on opening stores. Without the momentum of expansion, revenues barely rose, which is unusual for a restaurant chain. The problems went beyond real estate. PepsiCo transplants had started cutting corners—using frozen vegetables and cheese, for instance, rather than fresh (the company has since gone back to fresh). "If you're trying to roll out a certain amount of stores, you start making decisions to get stores open instead of making sure that every location is right," says Rick Caruso, the prominent L.A. real estate developer who at one time was on the CPK board.

In 1997, when the private equity firm Bruckmann, Rosser, Sherrill & Company bought out PepsiCo's two-thirds stake with the intention of taking CPK public in 2000, the marching orders were to resume expansion. Veteran restaurant executive Fred Hipp was hired to run CPK—Flax and Rosenfield remained on the board but had no day-to-day control—and he laid out an aggressive plan for 18 new stores in 2002, 22 in 2003, and 28 in 2004. He was moving even faster than the company had during the PepsiCo years. "Yeah, in retrospect, I got into trying to appease the Street as far as valuation," says Hipp. "We probably got ahead of ourselves in some locations."

At this point Flax and Rosenfield might well have moved on, just like other founders who get overshadowed by professional managers. "The firm's position," Rosenfield says, "was 'Leave it to us to run the business, and you guys do what you do,' which is the menu and public relations. Their attitude was 'You're not the businessmen—we are.' Remember, we weren't feeling so good about ourselves

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then. Larry and I were pretty insecure—we hadn't run it very well." After a while, there wasn't any love lost between Hipp and the two founders. They stopped getting invited to real estate meetings because, as Rosenfield says, "we were too vocal, and we'd say that particular spot is a bad idea." Robert Kahan figures it was a case of conflicting agendas. A private equity firm wants to come in, make a lot of money, and get out. "For Rick and Larry," he says, "this was their lives." Hipp will only say, "I think it's no secret that we didn't get along."

In time Flax and Rosenfield would no longer receive salaries (they got stock options in return for their continued PR work). "It was pretty bad," says Sarah Grover, CPK's senior vice president of marketing and public relations, recalling how Flax would wander into her office because he had nothing to do. Rosenfield didn't bother coming to work. "I would say, '[The three of] you need to talk to each other.' Then I would say to Fred, 'Go talk to them,'" she says. "But I knew it was becoming a lot more complicated than my saying 'Will you guys just talk?'"

Flax and Rosenfield were in no position to make noise. In early 2003, California Pizza Kitchen reported a 16 percent increase in profits, with Hipp telling analysts, "CPK, in my estimation, is in the best financial and operational condition since I joined the company five years ago." That's why a March 25 press release took Rosenfield by surprise. CPK suddenly cut its first-quarter earnings estimates, which didn't make sense given the positive forecast laid out just a few weeks earlier. So he got on the company's Intranet site and began investigating the numbers, store by store. What he discovered—and what shareholders had not been told—was stores that opened in 2002 had a brief honeymoon, but then sales started to slump. The positive earnings numbers Hipp had been touting were masking difficult quarters ahead.

An emergency board meeting was called—without Hipp. In a stunning turnabout, he was let go and Flax and Rosenfield were back in charge. (Hipp, who is now chief executive of AMF Bowling Worldwide, would not comment on the circumstances of his departure.) The return was awkward at first, since the newer employees had never worked with the pair, and Hipp had been well liked among many of the rank and file. "We had some detractors," Rosenfield admits, but he and Flax quickly made the rounds to introduce themselves and reassure staffers. "They took a very humble approach to make sure everyone knew that their worlds weren't going to be turned upside down because they were coming back," says Grover.

It was the same upbeat message Flax and Rosenfield have always delivered, part of a corporate mantra to be kind to your customers as well as one another. They even have an acronym for it, ROCK (Respect, Opportunity, Communication, Kindness), which sounds like something out of a managing-for-dummies book but apparently gets results. A few years ago Flax and Rosenfield appeared on *Now Who's Boss?*, a cable show in which CEOs performed work normally handled by their underlings. These days Flax and Rosenfield use the footage of themselves stumbling along as waiters, dishwashers, and pizza makers to train workers how *not* to serve customers.

For a publicly held company, CPK has a cozy corporate feel. It's still manageable enough for Flax and Rosenfield to try out new dishes from their home kitchens in Beverly Park and Malibu (where much of the menu originates) and to show up at most store openings. Their egos are not small—they each



received a little under \$2 million in compensation last year—though at this point the focus seems to be less about trappings than about growing the company, their way.

This year they will reduce the number of store openings from 17 to 12 (no sense spending all that up-front money if an economic downturn cuts into traffic). To generate additional revenue with less risk, Flax and Rosenfield brokered a partnership with Kraft to market frozen versions of the company's pizza in grocery stores. They're also pushing franchise and licensing programs for grab-and-go CPK/ASAP outlets in airports—as well as franchise agreements for CPKs around the world, probably the biggest source of growth.

In addition, Flax and Rosenfield have plans to expand L.A. Food Show, a pet project conceived during their time in corporate Siberia. The idea was to create a higher-end chain with a wide-ranging menu that includes such non-CPK dishes as black cod, steak, and baby back ribs. The two couldn't interest Hipp in the project and had to pony up 75 percent of the cost themselves. When they returned to power in 2003, Flax and Rosenfield opened a single restaurant in Manhattan Beach and later had the company acquire full interest at a price that some on Wall Street felt was too high (it's been dubbed an expensive R&D unit). A second Food Show is expected to open this fall in Beverly Hills.

"We are running this company for the long haul," insists Rosenfield, even if investors typically subscribe to the view of economist John Maynard Keynes: In the long run, we'll all be dead. So despite generally strong fundamentals—basic measurements such as sales, earnings, assets, and growth prospects—Wall Street has been ambivalent. In a way, Hipp was right: The more stores, the better it looks. CPK stock worth \$100 at the end of 2002—just months before Flax and Rosenfield came back—rose to \$131.56 by the end of 2006, only to start falling. As of May 30, it stood at \$82.36.

Not that it matters. Flax and Rosenfield intend to re-up when their contracts expire at the end of next year. After that, who knows? Company founders who enter their sixties often have a hard time letting go—it's the legacy thing—and with two partners the endgame becomes even more dicey. What if Rosenfield wants to leave but Flax prefers to stay on? What if the board starts itching to bring in younger executives? The issue of succession surfaces periodically, but Flax and Rosenfield brush it aside. When I invoke the "If you guys got hit by a truck tomorrow" question, the name they mention is Chief Financial Officer Susan Collins. "In reality," says Rosenfield, "the company would go on just fine."

As for the two of them, they know the day will come when they are no longer together—even if they don't want to think about it and don't know how they will handle it. Driving back to the office one afternoon, without Flax, Rosenfield shakes his head. "The story of our life is that every important decision we've made in the last 35 years has been made together," he says. "My life wouldn't be the same without Larry."