



Rolling in Dough

For the creators of California Pizza Kitchen, having enough capital was the key ingredient to success.

By [Richard M. Smith](#)
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Law school can be great preparation for all kinds of careers. But former federal prosecutors [Rick Rosenfield](#) and [Larry Flax](#) have deployed their expertise in an unusual niche: wood-fired pizzas. In 1985 the pair launched [California Pizza Kitchen](#), which has grown into a \$554 million-in-revenue chain with 213 restaurants. In an interview conducted as part of the NEWSWEEK-Kaplan M.B.A. program, NEWSWEEK Chairman and Editor-in-Chief Richard M. Smith spoke with the co-CEOs about the lessons they've learned during 22 years in the kitchen and boardroom. Excerpts:

SMITH: Why did two successful criminal attorneys decide to go into the pizza business?

FLAX: When we came up with the concept of California Pizza Kitchen, we didn't intend to rush wholly into the restaurant business. We relocated our law practice next to our first restaurant site, with the idea that we would open the restaurant but maintain the law practice. But it's sort of like needing brain surgery—you don't look for a doctor who's also a pizza maker. Once we opened the restaurant in March of 1985, we never got a new legal client. It was like we'd taken our foot off first base before we were sure we could steal second, but we had to run.

What was the biggest lesson you learned?

ROSENFELD: To be really well capitalized. Everyone knows that 95 percent of restaurants fail in the first two years, and a lot of people think it's "location, location, location." It could be, but my experience is you have to have the financial staying power. You could have the greatest idea, but many restaurants do not start out making money—they build over time. So it's really about having the capital and the staying power. In our case, we were fortunate: a lawyer and friend named Bob Kahn structured a deal in which Larry and I retained the rights to the California Pizza concept, but could take on limited partners to fund the first restaurant. We made 23 phone calls to potential investors—mostly friends and family—and 21 said yes.

FLAX: In our case, even if it had opened strong, it was clear we were not going to make enough money from one restaurant to make a living. That forced us to roll the concept into a corporation, to get investors and to grow it out ... A lot of our investors were people we'd had in for tastings. They could see we had a location, and they knew what the menu was going to be. What we were really doing was emulating Spago- and Wolfgang Puck-style wood-burning-oven pizza and

bringing it to the masses—taking it from high-end, reservation-only restaurants to a more accessible restaurant. People got it.

Your company went public in 2000. How have the demands of Wall Street changed the way you manage California Pizza Kitchen?

ROSENFELD: When we went public, Larry and I weren't running the company day to day. We'd sold a majority interest to PepsiCo for \$100 million in 1992, and then in 1997 a private-equity group bought PepsiCo's interest and put in their own CEO, with Larry and I as chairmen. Then in 2003 the CEO resigned, and we resumed day-to-day control. We'd never run a public company before. But in an odd way, as a public company we get more control over communication than we had as appellate lawyers. Under the rules of fair disclosure, I have a perfect right to say "I'm not saying that until I'm ready to make a public statement about it"—not something I would have said to a federal judge. As lawyers, we also know there's a difference between being truthful and being candid. We've always said we're going to be both, in good times or bad times.

FLAX: We were also fortunate because we personally did very well back in 1992 when we sold to Pepsi, and in 1996 when we bought ourselves back from Pepsi. So this isn't about us getting rich quick or even worrying about that. We wanted to settle the company down. The stock went down to around \$17 a share, and since coming back we've more than doubled it. That's been through a process of being very honest with the Street, of doing what we say we're going to do, of walking and not running. A lot of times people get into a CEO position and run because they're trying to make their mark. I think when a company's founders come back, and they've done well in the past and don't have the pressure of making it happen fast, you can do things more sanely and collectively and carefully.

How did you decide to expand beyond restaurants to sell frozen pizza in supermarkets?

ROSENFELD: From day one, we've always had this vision of creating a global brand. When we created our Kraft frozen-pizza license 10 years ago, that was a little debatable, because it becomes a big deal when you're exposing a lot of people to frozen pizza who might also eat at your restaurants. But everything Larry and I have done is about relationships, and we trusted the Kraft people with their commitment to being able to produce our quality. We worked with them on the menu and the creative part of it. And it's been a great brand developer for us. The same is true with our Asian franchise—it's about finding the right partners because we're not going to be putting company-owned restaurants in Tokyo and Hong Kong and Shanghai.

How many pizzas do you guys eat in a year?

ROSENFELD: We don't very often sit down and eat an entire pizza, but we sure taste a lot of them.