

California Pizza Kitchen Shies Away From Discounting

By Paul Ziobro
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California Pizza Kitchen Inc. (CPKI) is hesitant to follow other casual-dining chains down the path of heavy discounting and couponing despite declining traffic and sales.

Instead, the pizza chain, known for its eclectic pizza varieties such as barbecue chicken and mango tandoori, would rather set its sights on diners passing on upscale white-tablecloth restaurants, according to the chain's co-founder and co-chief executive, letting lower-priced casual dining try to woo customers back from fast-food restaurants.

"I don't know what message that sends and I don't know if that works," Co-CEO Larry Flax told Dow Jones Newswires in an interview. "But I don't want our customers to see us as a discounting chain."

California Pizza Kitchen, with 250 restaurants, still sees a challenging road ahead to get consumers to start opening their wallets, as fears of job losses and an enduring recession take their toll. While some glimmers of stabilization may appear as restaurant sales declines level off, it is still difficult to predict when spending will rebound.

"I still think we're going to be under tremendous pressure," Flax said. "We have to be cautious and think that this is going to be an up and down ride for awhile."

Like other casual-dining chains, California Pizza Kitchen is reining in costs, helping the chain to report an upside surprise in fiscal-first quarter earnings April 8 even though same-store sales fell 5.9%, within its targeted range.

California Pizza Kitchen shares are up nearly 6% since the earnings pre-announcement and are up more than 47% since the start of the year. In recent trading, shares were up 41 cents, or 2.7%, at \$15.76.

Flax said lower turnover among employees helped to reduce training and hiring costs, a trend that has been reported among various restaurant chains.

"That's where it starts," Flax said. "You get the right people on your bus in the right seats."

The chain has managed worker schedules more tightly so that more staff work during busy hours. It also switched more workers to full-time status while getting rid of part-time workers, Flax said.

The challenging economy also forced the chain to re-examine areas of excess spending and waste.

Employees now clock out of work during their meal breaks, something the chain hadn't made them do before. There is also greater scrutiny to make sure that chefs don't put too much cheese on a pizza or drown a salad in dressing.

"An overdressed salad costs us a lot of money but it doesn't make a great product," Flax said.

Such cost-savings initiatives may help California Pizza Kitchen ride out the recession until consumers emerge from their shells.

In the meantime, the chain plans to include a menu insert that offers new products such as cheeseburger and meat-lovers pizzas before full-menu updates that occur in June and November.

It is also repeating a "Thank You Card Program," through which customers can win anywhere from 10% off a meal to \$50,000 cash prizes on return visits.

While some restaurants may lose business to customers eating at home, California Pizza Kitchen licenses its pizza to Kraft Foods Inc. (KFT) for sale in grocery and other retail locations, which can soften the blow.

The partnership is expected to generate more than \$200 million in sales in 2009, which will be the first year that California Pizza Kitchen sells more pizza pies in grocery-store aisles than in its restaurants, Flax said.

The agreement also calls for Kraft to dedicate 5% of those sales to marketing California Pizza Kitchen's brand, which helps get the word out about the chain.