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## Business Reference Guide Online

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### Pizza Shops

SIC: 5812

NAICS: 722211

Number of Businesses / Units: 69,500

#### See Also

- ▶ [A&W Restaurants \(A&W Root Beer\)](#)
- ▶ [Arctic Circle](#)
- ▶ [Atlanta Bread Company](#)
- ▶ [Bagel Shops](#)
- ▶ [Bakery & Restaurant](#)

This U.S. industry comprises establishments primarily engaged in providing food services (except snack and nonalcoholic beverage bars) where patrons generally order or select items and pay before eating. Food and drink may be consumed on premises, taken out, or delivered to the customer's location. Some establishments in this industry may provide these food services in combination with selling alcoholic beverages.

#### Rules of Thumb

35 percent of annual sales plus inventory  
1.5 to 2 times SDE; plus fixtures, equipment and inventory

4 times monthly sales plus inventory

#### General Information

Note: If you have anything do with the pizza business, it is almost mandatory that you subscribe to the *Pizza Marketing Quarterly*. Go to <http://www.pmq.com/>. A great publication and a great Web site.

#### Expert Ratings

▶ Competition	2	(1=Lot of : 4= Not Much)
▶ Amount of Risk	2	(1=Very : 4= Not Much)
▶ Historical Profit Trend	2	(1=Down : 4= Up)
▶ Location & Facilities	2	(1=Poor : 4= Excellent)
▶ Marketability	2	(1=Low : 4= High)
▶ Industry Trend	2	(1=Declining : 4= Growing)
▶ Ease of Replication	1	(1=Easy : 4= Difficult)

#### Pricing Tips

"Typical pricing is 20 to 24 times weekly gross sales. Industry insiders and purchasers use this barometer consistently."

"Domino's Formula—45 percent of the first \$400K in annual sales, 50 percent of the next \$100K (\$400 to \$500K) in annual sales, then 55 percent of the next \$250K of annual sales (from \$500-\$750k)"

"Sole ownership in this type of business results in numbers that are hard to decipher their basis in reality. Be cautious and spend a great deal of time with the owner to truly understand the earnings of the business."

"Finally, when it comes time to select a franchise concept to go with, choose the one that, in your best judgment, offers the best odds of deriving consistent, substantial profitability. Because, in the long run, nothing else matters.

"Average weekly unit sales—AWUS, for short—is a key indicator of a franchise concept's strength within its market area. The greater its market-area strength, the greater its ability to deliver profit. Compare the AWUs of the various competing concepts. Look at two things: (a) dollars and (b) trend. AWUS dollars indicates a concept's current strength within its market area. AWUS trend (over the last three years) indicates a concept's likely future strength—or whether the concept is waxing or waning in market impact.

"Operational Consistency at the Store Level. Perhaps the biggest factor affecting consumer satisfaction is consistency of store operations, or the delivery of consistent quality product and service. The most expeditious way to gather info on this indicator is by personal sampling, or conducting your own mystery shopping. After you narrow the field of contender concepts down to three, perform your personal research into

operational consistency. For a period of at least several weeks, visit various stores of the three candidates. Purchase the product and experience the service of a number of stores of each company. Compile your findings, then compare the three concepts. You need to answer this basic question: For each concept, how consistent was its product and service from day to day and from store to store?"

Source: "In Selecting a Franchise, Only One Thing Matters" by John Correll, Correll Consulting, *Pizza Monthly Quarterly*, April/May 2006

#### Pizza Franchise Rules of Thumb -- Quick Check

Black Jack's Pizza	55% to 60%
Domino's Pizza	5% to 55%
Hungry Howie's Pizza	30% to 35%
Little Caesar's Pizza	55%
Mountain Mike's Pizza	27%
Mr. Jim's Pizza	35%
Pizza by George	50%
Pizza Inn	47%
Godfather's Pizza	30%
Pizza Factory	35%

#### Benchmarks

"Keep food costs below 30 percent and labor, not counting manager's salary, below 20 percent."

"Luke Bailey, owner of the two-unit Pizza Company in Davison, MI, keeps 10 to 14 days' worth of inventory on hand and schedules a running inventory only sporadically. 'If I can keep 61 percent on food and payroll, I'm OK,' he said."

Food Cost	28% to 30%
Payroll/Labor	25% to 30%
Occupancy	6% to 8%

#### Average Pizza Sales

	2004	2005
Average Sales for the Top 25 Pizza Chains	\$629,334	\$682,743
Average Sales for Independents (All pizzerias not in the Top 25)	\$338,745	\$323,411

Source: "Pizza Power 2006," PMQ's Annual Pizza Industry Analysis, *Pizza Marketing Quarterly*

Here are some franchised pizza operations and their approximate annual sales per unit:

Bertucci's Brick Oven Pizza	\$2,400,000
California Pizza Kitchen	\$3,000,000
Chuck E. Cheese's Pizza	\$1,000,000
CiCi's Pizza	\$900,000
Domino's	\$630,000
Donato's Pizza	\$985,000
Godfather's Pizza	\$535,000
Hungry Howie's Pizza	\$490,000
Little Caesar's	\$415,000
Mazzio's Pizza	\$738,000
Papa John's Pizza	\$750,000
Papa Murphy's	\$450,000
Pizza Hut	\$700,000

Pizza Inn	\$470,000
Round Table Pizza	\$860,000
Sabarro	\$655,000
Shakey's Pizza	\$450,000
Uno's Chicago Grill/Pizzeria Uno	\$2,100,000

Source: *Franchise Times*, *Nation's Restaurant*, *Pizza Marketing Quarterly* and various other publications

What type of location do you own?

Stand-alone	45%
In a strip mall	36.7%
Inside a shopping center	10.2%
C-Store	0.3%
Other	7.7%

What are the average yearly sales at each of your stores?

Less than \$300,000	23.8%
\$300,000 - \$550,000	28.8%
\$550,000 - \$750,000	17.9%
\$750,000 - \$1 million	10.3%
\$1 million - \$2 million	9.9%
Declined to answer	9.3%

Which segment of your sales has seen the most growth in the past year?

Takeout	31.0%
Delivery	29.4%
Dine-in	26.2%
Catering	11.2%
Take-and-bake	2.2%

How many employees do you have?

Less than 5	12.8%
5 - 10	18.8%
10-15	19.1%
15 - 20	12.8%
More than 20	36.5%

Source: *PMQ's Pizza Magazine*, 2007 Pizza Industry Census, results.pmq.com

### Expenses as a Percentage of Sales

▶ Cost Of Goods	28%
▶ Payroll/Labor Costs	25%
▶ Occupancy Costs	08%
▶ Profit (pretax)	12%

### Industry Trend

"There are several notes about the pizza industry for the past year that we can notice. First, sales have been consistently rising for the past few years, with the industry sales increasing an average of 1 percent more in overall sales each year. But pizzerias represented 7.7 percent of all the 900,000 U.S. restaurants in 2005 and pizza sales only represented 7.1 percent of the overall restaurant sales in the U.S. We have a slightly larger slice of the total percentage of American restaurants than we have in percentage of American restaurant sales. Average sales per store for the pizza industry was \$449,867/year, which was an increase of 1.7 percent from the previous year's average store sales, but this was still lower than the NRA's average store sales for all restaurants in the U.S., which was \$485,867/year for 2005. There are several trends, such as Latino-influenced flavors, gluten-free offerings, and the artisan movement, which can all be capitalized on; but the key is not just marketing. You

also have to provide the best customer service possible and control your costs. Our pizza industry lost 458 stores which were killed in acquisition this past year, but the independent pizzeria owners are slowly gaining ground on the top 25 chains. Congratulations to those owners who had a great year and for those who had a rough year, stay tuned to PMQ's Pizza Magazine and PMQ.com for new marketing and operations features."

Source: "Pizza Power 2006," PMQ's Annual Pizza Industry Analysis, *Pizza Marketing Quarterly*

"What franchised segment of the restaurant business do you find the most interesting? It has to be pizza. You got [15,000 to] 16,000 outlets between four or five giant chains, and yet every day someone opens a new franchised pizza concept that goes on to make millions. Everybody says pizza is saturated, that there's no growth. But the fact is franchisors and franchisees are making money with new pizza concepts all the time."

Source: "'Franchising guru' Kestenbaum: Businesses grow when franchises are making consistently" by Milford Prewitt, *National Restaurant News*, February 18, 2008

### Advantages

- ▶ "Low-priced food with appeal to all ages, genders, etc. Widening variety of product offerings to entice a larger segment of the population."
- ▶ "Ease of operation and ease of entry"

### Disadvantages

- ▶ "High-fat food content. Increasing number of franchised and independent pizzerias limit the growth potential."
- ▶ "Hard work, long hours"

Total ounces	192,000	144,000	84,000
Divided by			
average weight	9.5	7	4
Total units sold	20,210	20,571	21,000

Since the discrepancy here is not substantial, continue with steps 5 and 6.

Take the lowest of the three results—in this case, the amount is 20,210 units—and multiply the total units sold by the average menu price for pizza.

Total Estimated Pizza Sales = 20,100 units x 6 = \$121, 260.

The MSSP contains a similar explanation for sandwiches. Here is an example:

Assume 500 pounds of roast beef were purchased. Laboratory testing shows the average weight of the meat in a grinder [sub, etc.] is 5 ounces. The average menu price for a roast beef grinder is \$4.

Meat purchased	500 lbs.
Convert to ounces	x 16
Meat in ounces	8,000
Divide by average weight	_5
Grinder sold in units	1,600
Average menu price	x 4
Roast beef grinder sales	\$6,400

The MSSP suggests that "Generally, a reasonable spoilage factor should be allowed (a 10 percent spoilage factor was allowed in one audit)."

The MSSP shows the knowledge and effort placed in the audits conducted by the IRS. The above information may be too cumbersome for many business brokers and business appraisers, but it should provide some methods of calculating some rough figures.

### Additional Resources

**Related Websites**

- ▶ [\(See Restaurant Resources\)](#)

**Trade Publications**

- ▶ [FranchiseTimes](#)
- ▶ [Guide to a Successful Pizza Business & Pizza Business Manual by Paul Shakarian](#)
- ▶ [Nation's Restaurant News](#)—This is one publication you must have if you're marketing any type of food operation, including pizza stores
- ▶ [Pizza Marketing Quarterly](#)—This is a wonderful site. If you are serious about selling pizza businesses, you have to visit it.

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