

## Chuck E. Cheese, A time for reflection and transformation?

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### ABSTRACT

Chuck E. Cheese, “Where a Kid Can Be a Kid.” But, after 40 years of operation, what if the idea of “kid” has changed? The traditional arcade games and family entertainment is not as captivating to children that grew up surrounded with endless fast food options and the Internet. With over 500 Chuck E. Cheese restaurants currently in operation, what should the organization do to grab the attention and interest of today’s youth and families? Is Chuck E. Cheese able to thrive in a world of virtual reality, child independence and restaurant alcohol? Is there a place for Chuck E. Cheese in the twenty first century? This case is an opportunity to examine the potential of Chuck E. Cheese restaurants in a technologically advanced world. The case is designed for use in undergraduate management courses to help students focus on strategic planning, organizational planning, organizational behavior and organizational culture.

Keywords: Strategic Planning, Organizational Culture, Change Management



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## INTRODUCTION

Chuck E. Cheese was created by Atari founder Nolan Bushnell. Bushnell was a man with many talents and many interests. He was an entrepreneur, he loved video games and he had a great interest in the Walt Disney Company. It was through a combination of these passions, that he formulated the idea of Chuck E. Cheese Pizza Time Theatre and in 1977, the first Chuck E. Cheese opened in San Jose California. Chuck E. Cheese was the first of its kind focused on video games, food and family fun. And this restaurant spurred the growth of the restaurant/arcade genre that includes ShowBiz Pizza and Pistol Pete's. However, paving this path was not easy for Chuck E. Cheese or the organization's leaders. And, after years of operations, what about the company's future? Has the demand for family entertainment changed? When comparing 1977 to 2017, video games, children's entertainment interests, dietary choices and family's expectations of fun have all changed. If Chuck E. Cheese is to remain profitable and current, some evaluations, followed by transformation must occur. But what transformation is needed to allow an arcade centered business to compete in an Internet driven, virtual reality world? May 16, 2017, the Chuck E. Cheese's restaurant had a birthday, a Fortieth birthday. For many, the fortieth birthday is a significant birthday and symbolizes a time to review the past and plan for the future. This case study will provide an opportunity for reflection on Chuck E. Cheese success, failures and plans for the future. Specifically, this case will provide company background, analysis of current issues, current changes in implementation discussion questions, analysis of discussion questions and conclusion.

## COMPANY BACKGROUND

Chuck E. Cheese Pizza Time Theatre was the idea of Nolan Bushnell. Not only, did he develop Chuck E. Cheese, Mr. Bushnell also invented the Atari gaming system. Understanding Bushnell and other key players like Robert L Brock and Aaron Fechter is important in terms of understanding the history of the fun time restaurant.

Nolan Bushnell was born February 5, 1943 and grew up in Clearfield Utah where he earned an electrical engineering degree from the University of Utah and it was his job during college that helped to shape his future entrepreneurial direction. While in college, Bushnell worked for an amusement park and this was his first experience with the entertainment industry, video games and business operations. After completing his degree, Bushnell left Utah and headed to Silicon Valley in California.

Bushnell had several significant partners throughout his career. In 1969 Bushnell and Ted Dabney formed Syzygy with the plan to develop video games. Bushnell and Dabney eventually changed the name from Syzygy to Atari and they hired their second employee, Allan Alcorn. As momentum grew, Bushnell asked Alcorn to create a new game and Alcorn created Pong. Pong became one of the Atari's most notable games and by 1974, Atari was fully involved in the consumer electronics market. Profits for Atari grew and Bushnell chose to sell Atari to Warner Communications in 1976.

After the sale of Atari, his focus shifted to creating an entertainment arena for distribution of his Atari games. Bushnell, decided a family entertainment restaurant named Pizza Time Theatre would be perfect. The idea stemmed from Bushnell's desire to provide young audiences with a place to play video games, and Bushnell's love of amusement parks. And the idea become reality as the first Pizza Time Theater opened in San Jose, CA in 1977. While the nearly

100 arcade and pinball games were the foundation for the restaurant development, the animatronic show gained the greatest attention as the most unique aspect of the restaurant. The life sized animatronic characters included Jasper T. Jowls, Pasqually and the main character Chuck E. Cheese. The animated show only ran during specific times of the day and patrons had to choose to be available or they would miss the performance. It was not long before the San Jose located Pizza Time Theatre was the country's largest pizza parlor.

With growing success of the first Pizza Time Theatre, Bushnell begins to seek franchising opportunities. One individual that expressed interest in investing was Robert L. Brock, (1924- 1998) Brock was born in Pawnee Rock, Kansas and obtained his BS from Kansas University. And in 1979, Brock was the President of Topeka Inn Management, at the time the largest franchisee of Holiday Inns. Brock is excited about the Pizza Time Theatres and he signs a Co-Development Agreement with Bushnell. In the agreement, Brock obtains the right to open 280 Pizza Time Theaters (Shaffer, 2015). The Topeka Inn Management provided the capital to build each million-dollar restaurant and with this significant investment, Brock wanted the best in each restaurant and he begin to implement his own ideas. And Brock's unique ideas begin to alter the original Pizza Time Theatre model.

One of the first changes Brock considers is in regard to the animatronics. Brock recognizes the uniqueness of the animated characters and he wants to investigate the best technology options. He is seeking more advanced animatronics that Bushnell was offering. In his search, Brock finds Aaron Fechter and his company Creative Engineering Inc. Fechter, born in 1954 was considered a technical genius. Fechter earned a bachelor's degree in finance from the University of South Florida in 1975, at the age of 19, he founded Creative Engineering. Fechter's company created animatronics for the amusement park industry. As his animatronics take off, Fechter begins to attend annual International Association of Amusement Parks and Attractions (IAAPA) conventions and in 1978, at an IAAPA convention, Fechter, introduces the world to his most innovative animatronics, the Wolf Pack 5. This is a group of animals that sings mostly hits from the 50-60s and includes characters like Fats Gorilla, Dingo Starr, the Wolfman and Queenie the Fox (Shaffer, 2015).

Brock identified Fechter as having a product that could support a competitive advantage for his family entertainment center. Brock decides to deviate from Bushnell's animatronics and demands out of their original agreement citing misrepresentation (Shaffer, 2015). Bushnell will not terminate the agreement so Brock's only option is to create a completely new company with Fechter. The new company, ShowBiz Pizza Place, is owned by Topeka Inn Management and Creative Engineering Inc. Brock now has partnerships with Pizza Time Theatres and ShowBiz Pizza. And as Brock, prepares to open his first Pizza Time Theatre he chooses to install Fechter's animatronics in the new Chuck E. Cheese restaurant.

Next, Brock opens his ShowBiz Pizza Place in Kansas City, Missouri, March 3, 1980. ShowBiz has numerous similarities to Pizza Time Theatre with a few differences. The main differences involve the animatronics. ShowBiz uses The Wolf Pack 5, has separate entertainment rooms and the restaurant's main character Billy Bob is a "live" walking character.

Clearly, a lawsuit is inevitable and in 1980 Bushnell sues Brock over breach of contract. Brock issues a counter-suit against Bushnell stating misrepresentation. The working relationship has now been severed. But, Brock is not discouraged by the legal action and in July of 1980, a second ShowBiz Pizza opens in Jacksonville, Florida. Brock is continuing to add his unique ideas to the franchise. The second ShowBiz is equipped with three stages and frequent performances that highlight the Creative Engineering's animatronics. Another unique feature is

the “parent’s room.” This separate room has a large television screen allowing parents to watch adult shows.

ShowBiz is thriving but so is Pizza Time Theater. Pizza Time expands their animatronics with Mr. Munch the purple pizza eater, Madam Oink, Helen Henny and Foxy Colleen. Both Pizza Time and ShowBiz Pizza experience rapid and rising success as the restaurants are aligned with the video game industry explosion. As both restaurants thrive, it becomes easier to settle the ongoing lawsuit out of court. They end the lawsuit and the parties agree that ShowBiz Pizza will pay Pizza Time Theatre about \$50 million dollars over 14 years (Shaffer, 2015).

Pizza Time had their initial public offering in 1981 and with this milestone, Bushnell had a reported worth close to \$70 million. Once Pizza Time was stable, as he did with Atari, Bushnell, moved on to other ventures. But just two years later, in 1983 everything changed with the crash of the video game industry. Pizza Time Theatre lost an estimated \$15 million while Atari lost an estimated \$539 million (Shaffer, 2015). For Bushnell, the financial loss of the two companies was an extreme challenge as he had taken out loans backed by his stock in Pizza Time to support his new ventures. As Pizza Time lost money Bushnell lost money and by 1984, Bushnell had nearly \$30 million in debt against Pizza Time (Shaffer, 2015). The only option left for Pizza Time Theatre Inc. was to file for bankruptcy. As a strategy of repaying funds owed to Pizza Time Theatre, ShowBiz Pizza Place bought them out and the new combined venture was named ShowBiz Pizza Time, Inc. The merger did not change individualized operations and the two restaurants, ShowBiz and Pizza Time, continue to operate under their own names.

After the merger, ShowBiz Pizza Time became publicly traded in 1988 and sales experienced an increase of 8.3% (Shaffer, 2015). In 1990 profits appear steady and by 1992 all of the entertainment restaurants were united under the name Chuck E. Cheese Pizza (Shaffer, 2015). As innovation is significant for the entertainment industry, CEC Entertainment continues to test opportunities and advancements. The restaurants continually try new mixes of animatronic characters and variations in performance stages. In, 2005, the 500<sup>th</sup> CEC location was opened and Chuck E. Cheese is identified as one of the largest limited-service pizza chains in the U.S. (Largest Pizza Chains, 2014).

After decades of operation, what has happened with the restaurant and the key entrepreneurial players? Creative Engineering left the entertainment restaurant industry and Fechter is now involved in automated karaoke machines. ShowBiz Pizza operations achieved only minor success. Bushnell is continuing to work on new ventures.

In 2012 slowing sales caused the organization to attempt another make over with an up to date Chuck E Cheese himself. His makeover includes skinny jeans and more of a “rock star” appearance. And in 2014, Apollo Global Management acquired CEC Entertainment and the 577 worldwide stores for approximately \$950 million. CEC is now privately held, wholly-owned subsidiary of the affiliates of Apollo (Shaffer, 2015).

What should Chuck E. Cheese do now to plan for financial gains in the Twenty First Century?

## ANALYSIS OF CURRENT ISSUES

After an examination of the CEC Entertainment history, it is clear that the organization is experiencing challenges evolving with technology, adolescents and perceptions of family fun. The following will offer an analysis of current issues with CEC Entertainment, specifically, the company's finances, how inclusion of alcohol impacts the organizational culture and current changes already in implementation.

### Finances

Income Statement (mil)	2017	2016	2015	2014	2013
Revenue	\$923.65	\$922.59	\$718.58	\$114.24	\$821.72
Gross Profit	\$787.32	\$786.64	613.98	\$98.23	\$701.58
Operating Income	\$61.45	\$55.13	\$-32.36	\$2.87	\$83.47
Net Income	\$-3.667	\$-12.51	\$-62.08	\$.704	\$47.82

(D&B Hoover, 2017).

When reviewing CEC Entertainments Income Statement, it is noticeable that the net income has been recorded in the negative for the last three years. Net income is often referred to as the "bottom line profit." When net income is negative, this means that costs subtracted from revenue is negative, a net loss. Clearly, a company that is operating at a loss must take some action before the organization runs out of money. CEC Entertainment is in the process of identifying what action must be taken at this point to result in a financial stability.

What does this financial picture say to you? Is this an organization in financial trouble or an organization that is about to recover? Revenue is increasing.

### Alcohol Changes the Restaurant Culture

Chuck E. Cheese has attempted to make changes to the menu, games and environment to build momentum and gain customers. But, these changes are not just creating opportunities, some of these changes are fostering a new culture within the restaurant. Most notably, is the addition of alcohol to the menu. While alcohol may drive sales, alcohol may also be the catalyst for increased restaurant altercations. Consider the following description of the restaurant offered by an alderman in Milwaukee, he compares the local Chuck E. Cheese to "something out of a Quentin Tarantino film... there is alcohol and pistols being brandished." (Tate, 2008). And the Milwaukee location is not alone. Nationwide, Chuck E. Cheese restaurants have experienced an observable increase in restaurant altercations. Just a few examples are listed.

- Brookfield, Wisconsin- No other restaurant has triggered more calls to the police department since last year than Chuck E. Cheese's (Prior, 2008).
- Lincoln Park, Illinois - An argument over prize tickets with two 21-year-old individuals being arrested and three others injured (Suzdaltsev, 2013).
- Long Island City, New York – Hitting and violence erupting among several adults (Campbell, 2013).
- Cleveland, Ohio – Six employees injured while at least a dozen partygoers participated in a brawl (Goldstein, 2015).

- Manchester, Connecticut – Large fight broke out at Chuck E. Cheese with 12 people involved in the altercation (Tribune Media Wire, 2016).
- Victorville, California – Two fights broke out in one week where a grandmother was bloodied and lost hair (Hanson, 2017).
- Tampa Bay Area, Florida – During 2016 emergency personnel, in the Tampa Bay Area, were repeatedly called to various Chuck E. Cheese locations due to disturbances. The Clearwater location, 18 calls for emergency personnel, the Wesley Chapel locations 18 calls for emergency personnel, the Carrollwood location 38 calls for emergency personnel, the St. Petersburg location 56 calls for emergency personnel and the Brandon location had 61 times (French, 2017).

So, is it the adult focused menu that is causing the brawls? According to a Southern California-based psychologist with expertise in family and child issues, Dr. Dean Leav, the answer is yes. Dr. Leav says, “The elements within the environment can stimulate aggressive, impulsive behaviors. Situations that involve a group of excited people and alcohol can often lead to acts of violence. A classic example is the fights that frequently break out during baseball games” (Daily Mail Reporter, 2013).

Is the increased revenue from alcohol sales worth restaurant damage, potential legal consequence and negative public relations?

### **Current Changes Already in Implementation**

In addition to the adult menu, to increase customers and drive revenue, the organization is continuing to try other changes. With each change, the organizational culture shifts a little. Can an organization experience too many changes at once? Should the organization maintain standardized franchise policies or is it best to consider changes for each location based on the unique customer needs? Consider the following:

- Oculus Rift, virtual reality games, are going in to some Chuck E. Cheese locations in an attempt to offer kids with an experience they cannot get with their home gaming systems. CEC Entertainment President Roger Cardinale said in a statement "Our challenge is to deliver an experience not available at home, and there is no doubt virtual reality does just that," Cardinale continued (Stampler, 2014).
- Some restaurants are offering community service campaigns like the Big Brothers Big Sisters Roundup. With the Chuck E. Cheese's Roundup campaign, guests can roundup their purchase to the nearest dollar and donate the difference to Big Brothers Big Sisters, or make a higher donation in the amount of their choosing (PR, 2015).
- Some restaurants are offering thin and crispy crust pizzas with fresh spinach and mushrooms or barbecued chicken, along with boneless chicken wings, ciabatta sandwiches, whole wheat wraps and a churros dessert (Ruggless, 2015).
- Many locations offer free wi-fi and are phasing out tokens and offering game cards (Pilon, 2016).
- Select restaurants are hosting special evenings to cater to special needs children, like low lights, low noise, no mouse, sensory sensitive Sundays for kids with autism (Klara, 2017).

Clearly, there are many ideas for change from enhanced virtual reality games to community service. With so many ideas for change circulating, will the multiple changes lead to success or

chaos? What ideas are worth considering? Which ideas will generate improvements? Which ideas will generate new issues?

### **DISCUSSION QUESTIONS**

With a long history and minimal competition, Chuck E. Cheese should be positioned for success. But, it seems the organization is struggling to answer the question, what should Chuck E. Cheese do now to plan for financial gains in the Twenty First Century? This is not a simple question to answer as there are multiple considerations, many options and limitless “unknowns.” Reflect on the company’s history, finances, culture and changes already in process to answer the questions below. After thinking through specific aspects of the CEC Entertainment organization, answer the following questions:

1. What should Chuck E. Cheese do now to plan for financial gains in the Twenty First Century?
2. Did Brock do anything wrong by severing the contract with Bushnell and going into business with Fechter? What is your opinion and why?
3. What does this CEC Entertainment Income Statement indicate to you? Is this an organization in financial trouble or an organization that is about to recover?
4. Is the increased revenue from alcohol sales worth restaurant damage, potential legal consequence and negative PR? How should the organization handle the parent fits that are plaguing the restaurant?
5. With so many ideas for change circulating, will the multiple changes lead to success or chaos? What ideas are worth considering? Which ideas will generate improvements? What ideas will create new issues?
6. In terms of organizational culture, what should Chuck E Cheese do to thrive in the next decade?

**DISCUSSION QUESTION ANALYSIS**

1. What should Chuck E. Cheese do now to plan for financial gains in the Twenty First Century?

The leadership at Chuck E. Cheese must begin to align organizational decisions with the organizational mission, values and goals. If the mission statement is, “Where a kid can be a kid,” then diversifying into adult beverages and adult food may minimize child interest and child focus.

2. Did Brock do anything wrong by severing the contract with Bushnell and going into business with Fechter? What is your opinion and why?

This is an interesting question to consider. Brock saw a good idea in Bushnell’s product, but Brock’s unique thinking also helped introduce high level animatronics that were a major pull for customers to the restaurant. Ultimately, Brock and ShowBiz Pizza paid Chuck E. Cheese \$50 million dollars and comprehensively contributed to the long term operations of the pizza entertainment restaurant business. These actions will be enough for many to say, Brock’s choice to sever ties with Bushnell and go into business with Fechter was fine. Others, will hold the idea that a “deal is a deal.”

3. What does this CEC Entertainment Income Statement indicate to you? Is this an organization in financial trouble or an organization that is about to recover?

Organization’s cannot operate at a loss long term. There must be profit enough to operate and significant profit if growth is the goal. Revenue is going up and negative net income is decreasing. It is yet to be seen if CEC Entertainment changes are sufficient enough to push the organization into consistent quarterly profits.

4. Is the increased revenue from alcohol sales worth restaurant damage, potential legal consequence and negative PR? How should the organization handle the parent fits that are plaguing the restaurant?

The organization must increase revenue to minimize financial losses. It may be the alcohol sales that is increasing overall revenue and it may be the alcohol sales that are contributing to the ongoing adult altercations. Is the sale of alcohol worth the potential for long term PR and legal damage? The author recommends making decisions based on alignment with organizational mission, “Where a kid can be a kid,” and would recommend identifying another menu change to increase revenue rather than alcohol sales.

5. With so many ideas for change circulating, will the multiple changes lead to success or chaos? What ideas are worth considering? Which ideas will generate improvements? What ideas will create new issues?

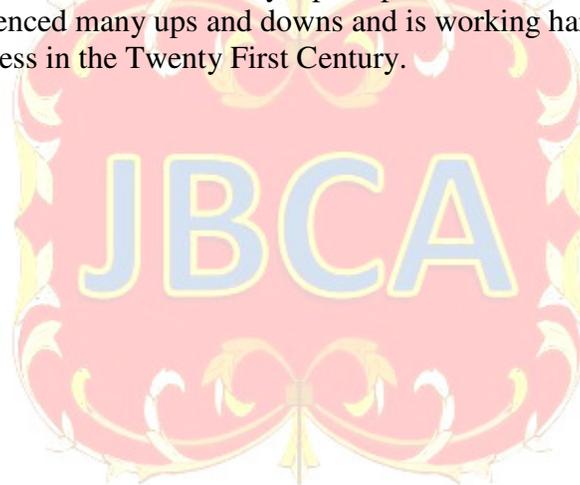
Too many changes and too many variations from location to location may damage the Chuck E. Cheese brand. It is the recommendation of the author to maintain a national policy on menu items, operations and procedures. This will allow customers to comfort and consistency each time they visit a Chuck E. Cheese restaurant.

6. In terms of organizational culture, what should Chuck E Cheese do to thrive in the next decade?

Chuck E. Cheese has video games and pizza. The organization should continue these two products but bring both up to contemporary quality levels. All video games should be current and high tech. The pizza should be delicious and good quality. People come to Chuck E. Cheese to play games and eat pizza. Chuck E. Cheese should offer the best of both.

## CONCLUSION

In January of 2017, Reuters, an international news agency, reported that Chuck E. Cheese's may be headed to the trading floor with a public offering that could value the chain at more than \$1 billion dollars (Patrick, 2017). Clearly, there is comprehensive monetary value in this restaurant chain. The Chuck E. Cheese brand has offered a family oriented fun atmosphere for decades. For the restaurant, one challenge for the future will be to remain current, not only current with technology but current with family's perceptions of fun. Chuck E. Cheese Entertainment has experienced many ups and downs and is working hard to identify a product mix that will sustain success in the Twenty First Century.



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