5-2008

The Down Home Café

R. Edward Bashaw

Joan Brumm

Larry R. Davis

The Down Home Café *

R. Edward Bashaw, Texas A & M University-Texarkana
Joan Brumm, Texas A & M University-Texarkana
Larry R. Davis, Texas A & M University-Texarkana

ABSTRACT

The Down Home Cafés, a profitable 23-unit chain of family-oriented restaurants in Arkansas, Tennessee, and Oklahoma, have had slowly declining same-store revenue growth during the past three years. Although research suggests that patrons give the Down Home Café high marks on food quality and value, growth may have been hurt by the lack of ambiance and brand image. Research indicates they are in target consumers' consideration sets, although perhaps not a first choice. In order to generate growth, the executive team is focusing on ideas to generate repeat business and increase the underperforming dinner and weekend meal occasions. Down Home's advertising agency has encouraged management to step back from a short-term strategy and consider developing a more comprehensive approach. The agency presented analysis that has broken down the Down Home customer base into ten decision-making segments according to dining occasion, and is pushing management to adopt an overall branding strategy.

Keywords: restaurant industry, marketing strategy, strategic planning, financial ratio analysis, casual dining segment, small chain restaurant

INTRODUCTION

During a hot summer afternoon in Arkansas, Alvin Robertson was considering strategies to increase sales at the Little Rock, Arkansas, based and privately owned Down Home Café chain of twenty-three full-service restaurants located in Arkansas, Tennessee, and Oklahoma. Robertson and Gordon Howe were the majority owners whose formula for the company was to prepare old-fashioned Southern style food from scratch and to sell it inexpensively in clean, friendly surroundings.

By several measures, Robertson and the Down Home Cafe executive team, that included Roberson, president/owner, Howe, executive vice-president, and Frank Ryan, vice-president of operations, could have been content with the profitability of their business and pleased that new restaurants were being added each year. While Down Home Cafés occupied a comfortable niche among family-oriented, casual-dining restaurants in the areas where they competed and customers appeared to be satisfied and loyal, Robertson's entrepreneurial instincts told him something was wrong.

Executive Team Meeting

Robertson had just come from an executive team meeting to review same-store restaurant sales. Monthly sales figures showed a continuing three-year trend: same-store revenues were flat to declining and, over the last fiscal year, same-store sales were down almost 3%.

A prototypical 'self-made' entrepreneur, Robertson was uncomfortable with the chilling sales results, especially since he had spent considerable time and effort aimed at increasing revenue for the chain, seemingly to no avail. He was frustrated that recent meetings had detected no concrete reasons for the poor performance results.

---

* The identities of the restaurant and management team have been disguised. In addition, the specific circumstances, financial statements, and other pertinent information included in the case have been changed or created to serve as classroom discussion and not to demonstrate proper or improper management practices.

Advertising Agency Advice

Following the most recent executive team meeting, Robertson considered the advice of his new advertising agency. In discussing promotional plans for the coming year, the head of the agency had suggested that a more fundamental set of issues be addressed, namely, how to establish a focused Down Home brand or "persona" to the customer's dining experience. He insisted that the lack of a focused brand accounted for the disappointing sales results. "Of course, this is what ad agencies always say, that more dollars should be budgeted to advertising," Robertson said to no one in particular.

The advertising agency pitched ways of enhancing the restaurant atmosphere by adding branding and improving the restaurant décor. It suggested the presentation of a clearly defined brand image to encourage customers to connect the ambiance and the brand. A comprehensive internal and external branding campaign was emphasized and it was believed that food quality and dollar price were strong positives. A "secret shopper" type of research by the agency indicated inconsistencies in the cost of experience, but the biggest issue they found was the negative ambiance and the lack of brand identity. The words of the agency principal were still ringing in Robertson's head: "The best way to increase value for Down Home Cafes is to create a distinctly 'Southern' brand image with all the accompanying expectations to support the ambiance. Then your jobs--Robertson, Howe, and Ryan--will be to make sure your people deliver on that 'Southern' expectation."

Down Home Café's advertising agency presented management with its description of ten primary decision-making groups for restaurant choices (Exhibit 1).

Exhibit 1
Decision-Making Categories and Processes

Meal Occasion	***Nickname***	***Description***	***Decision Dynamics***
Weekday Lunch	Workers	Workers within a 2-3 mile radius of a Dixie Café	Group decision-making (consensus rules the day); individuals may have veto power
Weekend Lunch	Out-and-Abouters	Saturday shoppers, travelers	Where I am when I'm hungry (near an M-D Café?), reason for being out-and-about (shopping, traveling, etc.)
Weekend Lunch	Sunday Best	After-church crowd	"I want food like Momma made after church"; kids might veto
Weekday Dinner	Traditionals	Mother, father, and children	Mom is still responsible for dinner, so she (about 50% of the time) decides with Dad (25%) and kids (25%) helping out; we might all meet there after work/activities
Weekday Dinner	Ally McBeals	Non-family/singles	"If I'm eating by myself, I'll probably pick my meal up on the way home from work or call and bring it back home"; if eating with others, the "Workers" model applies
Weekday Dinner	Old-Timers	Retirees, couples, or groups	"I want to eat light, while it's still light out" (eating between 4 and 6 p.m.); many decisions based upon habit
Weekend Dinner	Traditionals	Mother, father, and children	Mom is still responsible for dinner, so she (about 50% of the time) decides with Dad (25%) and kids (25%) helping out; we might all meet there after work/activities
Weekend Dinner	Ally McBeals	Non-family/singles	"If I'm eating by myself, I'll probably pick my meal up on the way home from work or call and bring it back home"; if eating with others, the "Workers" model applies.
Weekend Dinner	Old-Timers	Retirees, couples, or groups	"I want to eat light, while it's still light out" (eating between 4 and 6 p.m.); many decisions based upon habit
Weekend Dinner	Daters	Social occasion	The male generally decides, based upon perceptions of date's wishes

Source: Down Home Café's Advertising Agency

The agency believed that the "Traditionals" category, families eating out together for dinner, was the decision-making group with the most potential for Down Home Cafe. This dinner segment was also desirable because of the higher than average per-person meal check.

Exhibit 2 displays the findings of additional research provided by the advertising agency that revealed the sales and market share data for the Little Rock, AR, and North Little Rock, AR, restaurant markets.

Exhibit 2

Competitive Sales and Market Share Data

Casual Restaurant Market Share
Little Rock, Arkansas

Casual Market Category	*Gross $ Sales*	*Share of Mkt.*	*Top 50 Share*	*Casual Share*
Family Style	8,828,738	**4.0%**	11.1%	15.1%
Grill/Bar	15,093,324	6.8%	19.1%	25.7%
Cafeteria	6,687,012	3.0%	8.4%	11.4%
Steak	5,328,506	**2.4%**	6.7%	9.1%
Specialty Casual	22,679,098	10.2%	28.6%	38.7%
TOTAL	58,616,678	26.5%	74.1%	100.0%

Casual Restaurant Market Share
North Little Rock, Arkansas

Casual Market Category	*Gross $ Sales*	*Share of Mkt.*	*Top 50 Share*	*Casual Share*
Family Style	7,544,826	**7.0%**	11.1%	19.4%
Grill/Bar	8,025,009	7.5%	11.8%	20.6%
Cafeteria	3,204,591	3.0%	4.7%	8.2%
Steak	8,267,755	**7.7%**	12.1%	21.2%
Specialty Casual	11,902,805	11.1%	17.5%	30.6%
TOTAL	38,944,886	36.3%	57.2%	100.0%

Source: Sales Tax Records

Exhibit 3

Top Ten Dollar Sales Grossing Restaurants
Little Rock and North Little Rock

Little Rock	**$ Sales (MM)**	**North Little Rock**	**$ Sales (MM)**
Outback Steakhouse	3.1	Red Lobster Seafood	3.7
Red Lobster Seafood	2.8	Outback Steakhouse	2.6
Romano's Macaroni Grill	2.8	Roadhouse Grill	2.5
Chili's Bar and Grill	2.6	Chili's Bar and Grill	2.5
Regas Grill	2.5	Golden Corral Steak Buffet	2.5
Olive Garden (Italian)	2.3	Olive Garden (Italian)	2.5
Jason's Deli	2.1	Shorty Small's Family	2.3
Tia's Mexican Food	2.1	Luby's Cafeteria	2.0
Shorty Small's Family	2.1	Tia's Mexican Food	1.9
Franke's Cafeteria	2.0	Lone Star Steakhouse	1.9

Source: Greater Little Rock Convention and Visitors Bureau

Robertson had held to the "if it ain't broke, don't fix it" cliché long enough. While not really broken, there were signs that Down Home Café had underlying problems, and he knew that, in this intensely competitive industry, complacency was dangerous. He wondered whether the executive team should take the agency's advice to establish a more refined and targeted branding strategy. He also wondered whether he had enough information to decide what that branding strategy should be and how it could ultimately lead to a competitive advantage for the Down Home Café.

"Well, they say 'If you can't stand the heat get out of the kitchen'" Robertson thought to himself. Perhaps he and his team were facing a moment of truth in the business where they are compelled to make changes. Robertson had always been an advocate of working hard and taking calculated risks, however, he also knew that a misguided strategy could be, and often is, fatal in the restaurant business.

BACKGROUND

The first Down Home Café's began as Black-Eyed Pea restaurants, a Dallas-based chain that established a winning combination of offering country cooking and cocktails during the 1970s (a self-described "fern bar in overalls"). Bar sales exceeded ten percent of total sales in those days. The concept was a success and the chain grew quickly to include three Little Rock, Arkansas locations with the first being opened in the late 1970s.

In 1986, the Black-Eyed Pea chain was sold to a British company. The process allowed Robertson and Howe, who operated the Black-Eyed Pea franchise restaurants in Little Rock, to purchase them as independents and change the name to the Down Home Café, which "sounds more like the South," as Robertson pointed out.

The company grew to a chain of twenty-three owned-and-operated Down Cafés in Arkansas, Tennessee, and Oklahoma, including five in the Little Rock area which accounted for over 20% of total company sales. These five restaurants were the most mature units in the chain and management closely monitored them as leading indicators for what could follow in the other units.

The first ten years of operation were a time of consistent growth for Down Home Cafe. The owners aggressively opened new units while maintaining same-store sales increases. Robertson, Howe, and Ryan felt the restaurants' success had come because they remained true to the original vision of good, affordable food served in clean and pleasing surroundings. The disappointing sales results during the last few years became particularly troubling since, with minor exceptions, management believed they had stayed true to those origins.

Philosophy

Exhibit 4 displays the Down Home Café philosophy of management that was implemented and followed.

Exhibit 4

The Down Home Café Philosophy

1. COMPLETE CUSTOMER SATISFACTION: We're only as good as the customer thinks we are. The customer is always right: Every guest must leave Down Home Café fully satisfied each and every visit..
2. VALUE: Down Home Cafe will provide a product and guest experience that is far greater than what the customer gives us, both in terms of money and time.
3. QUALITY: Quality always comes first and can never be compromised. Quality comes before any other consideration, including cost or convenience.
4. HOSPITALITY: Down Home Cafe respects the individual and extends an immediate, warm welcome, fast, attentive, and friendly service, and a cordial send-off.
5. ATMOSPHERE: We pledge to provide our guests a clean, comfortable, and secure environment.

Source: Alvin Robertson

Down Home Café Menu

The Down Home Cafe menu is broad featuring soups, dinner and side salads, lower-fat entrees, vegetables, and a full selection of regional entrees. Some of the more popular menu items are catfish, fried chicken, vegetables including black-eyed peas and squash casserole, and its marquee item, chicken fried steak,.

Consistent food quality and efficient service have been key drivers in giving Down Home Cafe a competitive advantage. Nothing has been left to chance in ensuring that menu items taste the same each time they are served. "We put our money where our mouth is," said Ryan. "The kitchen manager is the second-highest paid employee, after the general manager." The managers rely on their highly guarded recipe and operations book to insure food consistency. It has even been translated into Spanish to accommodate today's kitchen demographics.

When compared to restaurant chains like the Cracker Barrel, Howe believes the Down Home Cafés have an edge in food freshness. At many restaurants, most dishes are prepared in a central commissary, then frozen, and are finally reheated before serving at the restaurant. This is not the case at Down Home Cafés. "We cook our beef in the oven overnight for 12 hours and bake bread from 10:00 am to 10:00 pm," said Howe. Robertson added, "We mix the dough and cornbread every morning."

Pricing

Menu prices also set the Down Home Cafe apart from most of its closest competitors. Management found a way to deliver quality and consistency for around $6.75 per customer while remaining profitable. They were able to do this, in part, by rewarding efficiency from individual restaurant managers. Ryan said that each unit was given both volume and profitability goals and were rewarded for reaching each of them. "We can't really have one (volume) without the other (profitability)."

Another success factor has been Down Home Café's focus on its target markets, primarily family diners. "We believe that such concepts have gotten away from some of our competitors," stated Robertson, as "they try to be all things to all people." For example, management of the Black-Eyed Pea chain, in an effort to increase the average per-customer ticket revenue, added steaks and grilled salmon to their menu, priced at more than ten dollars each.

Restaurant Layout

The original Down Home Cafe layout included a bar area that served beer, wine, and cocktails. Initial sales were good, accounting for about ten percent of the restaurants' revenue although alcohol sales subsequently dwindled to about one percent of revenue. As a result, the bars were converted to soda fountains within a visually distinct space. These fountains occupy approximately 7% to 10% of the restaurant's average serving space and provide an "old-fashioned" spot for serving ice cream, floats, and other desserts. The spaces are decorated with 1950s-style black-and-white flooring, a chrome-accented counter and stools, and several booths.

This area has also served as the location where take-out customers place and pick up orders which causes a "clutter" problem at peak times, particularly on weeknights when the frequency of take-out orders is heavy. The take-out customers sometimes obstruct the path into the soda fountains. Over the last few years, soda fountain sales have accounted for about four percent of the typical Down Home Café's sales revenue.

Convenience

Meal occasions have been divided into four categories: weekday lunch, weekend lunch, weekday dinner, and weekend dinner. Each has been distinguished by a unique customer profile and decision-making process. For example, the weekday lunch segment is dominated by working people, age 25-55, who routinely eat out. This group includes both blue- and white-collar workers with average to above-average education. Diners' choices of a restaurant for weekday lunches are primarily influenced by location convenience (within 2-3 miles of work), fast service, and menu selections. The lunch time decision dynamics differ from evening dining in that lunch, menu variety, fast service, and convenience (in the form of multiple locations) are a more important considerations than ambiance and brand image. Thus, it was no surprise that Down Home Cafe has a higher proportion of lunch to dinner customers than industry norms..

Ambiance

The atmosphere inside a Down Home Café is clean, comfortable, and casual, with a mix of tables and booths. A "theme" look for the restaurants (in contrast to, say, Cracker Barrel restaurants), has not been established, opting instead for a less cluttered appearance.

The weekday dinner segment, according to Down Home Café management, consists mostly of senior diners, families with children, and a substantial carryout business at many locations. Robertson described these guests as usually more upscale and better educated than the lunchtime customers. Ambiance and brand image were found to be more important to this group than for other segments, but the research indicated that Down Home Cafe did not score particularly well with the primary female and child diners. In fact, Robertson looked at the findings and said, "What we believe to be a clean and pleasing environment is someone else's plain and boring."

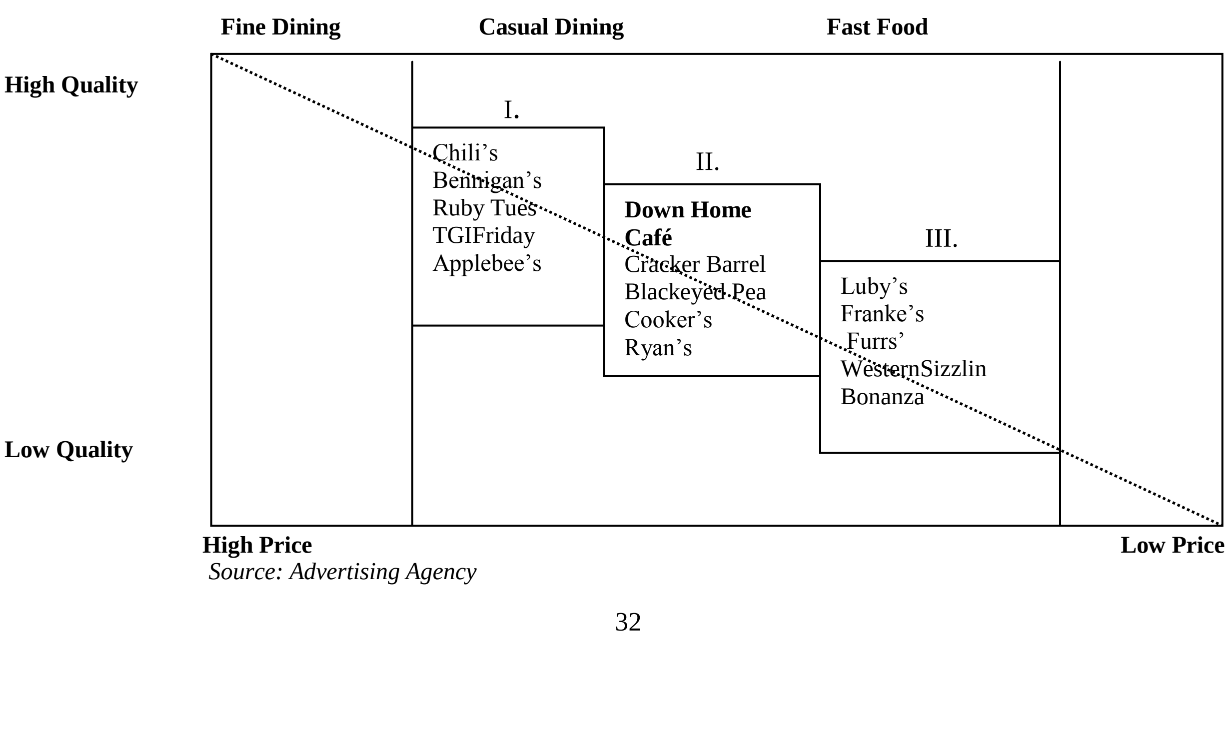
The weekend lunch customers are primarily shoppers, travelers, families, and seniors. Sunday lunch business is strong while Saturday lunch is particularly weak (with the exception of a few satellite locations). Women and children usually make the restaurant choice during these times.

Competition

Exhibit 5 depicts a positioning map for the restaurant industry. On one axis is price and perceived restaurant quality is on the other. Price consists of average per person ticket in dollars. Restaurant quality includes the elements of "perceived" food quality, brand image, and ambiance. Notice the positions of the three industry segments (fast food, casual dining, and fine dining) along the dotted line continuum which represents a perceived "fair" value from the consumer's point of view. Within a particular category, a goal is to position an individual restaurant above the dotted line. The higher above the dotted line the restaurant can position itself, the higher the value the consumer perceives.

Exhibit 5

Restaurant Industry Positioning Map



Source: Advertising Agency

Within the casual dining segment, Cracker Barrel and the Black-Eyed Pea were the two restaurants considered most similar to Down Home Cafe. The Down Home Café executive team believed that the Cracker Barrel brand stood for "old-fashioned country cooking" and that the Black-Eyed Pea was associated with "home cooking." Cracker Barrel, a fast-growing public company with operations in most areas of the U.S., is perhaps Down Home Cafe's most significant family-style restaurant competitor. Cracker Barrel restaurants are consistently promoted using the "old-fashioned country cooking" theme and that promise is delivered through both menu items and adjoining retail space offering "country" gift items. The Black-Eyed Pea, with similar menu items, has tried to establish itself as offering "home cooking" to its patrons. The Black Eyed Pea décor is consistent with this persona. Cooker's and Ryan's Family Steakhouse are also considered by Down Home Café management to be family-style, medium quality and medium price chain competitors.

Other competitors exist at different points of the quality/price relationship in the casual segment. Among perceived high quality, high price grill/bars, Chili's, Bennigan's, Ruby Tuesday, TGIFriday, and Applebee's present substantial competition. They sell alcoholic beverages, have large advertising budgets, and have a fun atmosphere. On the other hand, they are not considered as family-friendly and their food was often pre-prepared (not "from scratch"). These competitors occupy Segment I.

In Segment III, the low priced/low quality casual dining segment, cafeterias and lower priced steak buffet restaurants are the primary occupants. Cafeterias such as Luby's, Franke's, and Furrs' offer a broad selection (from salads through desserts) of comfort foods. Food items are individually priced and the value minded patron could control the price of the meal. Ambiance is not considered a strength for cafeterias. Steak buffet units like the Western Sizzlin and Bonanza offer a value priced steak in a cafeteria setting.

THE U.S. RESTAURANT INDUSTRY

Sales

Based on industry projection from the previous year, the U.S. commercial restaurant industry generated over $350 billion in sales. This industry is divided into five major segments: eating places ($238 billion); retail, vending, recreation, and mobile ($30 billion); managed services ($23 billion); hotel and motel restaurants ($19 billion); and drinking places ($11 billion) "All other" restaurants accounted for $33 billion in sales.

Down Home Cafés compete in the "eating places" category with sales in this category being split between full-service restaurants (52%) and fast-food outlets (48%). Down Home Café competes in the "casual dining" segment of full-service restaurants, where the average per-person ticket is $9.50. The average per-person ticket in a Down Home Café is in the range of $6.75. Although the executive team did not consider fast-food outlets to be direct competitors, they recognized that fast food takes many potential customers "out of play" for any given meal. More casual dining customers are in the 45-54 age range than in any other single age category. At the other end of the full-service continuum are the "fine dining" restaurants where an average per-person ticket price starts at $20.00. Again, these establishments are not really direct competitors, but remain worth monitoring for Down Home Cafe management to observe consumer trends in the industry.

Given the relatively low per-ticket price of fast food restaurants, the successful restaurant (and chain) relies on low margins and high volumes. The fine dining restaurant, on the other hand, is less concerned with volume and more concerned with delivering high quality food and service at relatively high prices. The reality for Down Home Cafe is that, given their average ticket price, they must rely more on high volume than on large margins. To be very successful operationally, the concept must be developed and delivered at the chain level where coordination and efficiencies must be of great concern. So, while raising the average ticket price is desirable, doing so too quickly can have a negative effect. Instead, the market dictates that price increases and quality upgrades must be gradual and even somewhat subtle.

Employee Turnover

While the restaurant business had been generally good, there were problems that limited growth. Nationally, the industry was hindered by the problem of employee turnover and Down Home Cafe was no exception with an annual turnover rate of almost 300%. These shifts in café staff have made it difficult to maintain consistency in the way the Down Home Cafe experience is delivered to customers. At the same time, a 4.5% unemployment rate, low by historical standards, made it difficult to recruit and retain minimum-wage restaurant workers.

Secondary Research On Restaurant Customers

A national survey sponsored by the National Restaurant Association (NRA) reported that consumers find out about new restaurants (or restaurants they have not yet tried) primarily from family and friends. These findings are presented in Exhibit 6.

Exhibit 6

Secondary Research on Restaurant Customers

"From what source(s) do you usually learn about restaurants?"

Recommendation from family or friend	80 %
Restaurant review	40 %
Restaurant guide	33 %
Advertisements on radio or TV	28 %
Advertisements in print or direct mail	20 %
Internet	8 %

Source: National Restaurant Association

Another survey sponsored by the NRA found that dinner customers balance three primary goals when making a selection: social pleasure, eating pleasure, and lifestyle support. These are explained below.

I. Social Pleasure *(Togetherness).* The overall goal is to provide dinner customers with a social experience with the focus on making the food and ambiance a complement to the dining event. The two primary need states are:
   a. Celebration/Special Occasion: When adults focus on getting together and enjoying each other's company.
   b. Kids: When the decision-maker specifically tries to please one or more children.

II. *Eating Pleasure*. The overall goal is to provide the decision-maker with eating pleasure by making the food the most important aspect of choosing a particular dinner option. The two primary need states are:
   a. Craving: When the decision-maker has a taste for a particular type of food, showing little concern about how healthy or wholesome the food may be.
   b. Home Cooking: When the decision-maker wants healthy or wholesome, familiar-tasting food in quantity, without feeling guilty.

III. *Lifestyle Support (Convenience)*. The overall goal in this area is to provide the decision-maker with help in maintaining his or her lifestyle by simplifying the meal preparation for the decision-maker. The two need states are:
   a. Pressed for Time: When the decision-maker is in a hurry and thus has little time for dinner.
   b. No Energy/Fatigue: When the decision-maker is tired, feels "lazy" and wants to take it easy.

Additional consumer research indicated that many families value some type of "meal experience" in addition to good food at an appropriate price. According to the industry research, meal value equals:

$$\frac{\text{Food Quality + Ambiance + Brand Image}}{\text{Meal \$ Price + Cost of Experience}}$$

where *food quality is* a subjective evaluation of the quality of food versus expectations, a*mbiance is a* subjective feelings based on experience (restaurant décor, cleanliness, other patrons, wait staff, etc.), b*rand image* is based on a feelings about the brand based on prior processed information, m*eal $ price is* the actual price of the meal, and c*ost of experience* includes non-monetary aspects such as total waiting time, driving time, social/psychological perceived cost, etc.

Given their desire to increase dinner business, Robertson, Howe, and Ryan wondered how they should have weighed the results of these surveys as they set their strategy.

Industry Financial Ratios

Selected financial ratios for the industry and Cracker Barrel (CBRL) are presented below as Exhibit 7. Industry data were obtained from D&B Business Ratios for the SIC code 5812 "eating places" for companies with total assets between 5 and 25 million.

Exhibit 7

Current Ratio	**2006**	**2005**	**2004**	**2003**	**2002**
CBRL	0.91	0.64	0.82	0.71	0.74
Industry - (5-25 million assets)	NA	0.80	1.00	1.00	0.90

This solvency ratio indicates a company's ability to pay their short-term obligations. The higher the ratio the more able a company is to pay their current obligations. An extremely high ratio may poor asset/cash management.

Total Liabilities to Net Worth	**2006**	**2005**	**2004**	**2003**	**2002**
CBRL	4.56	0.76	0.63	0.67	0.61
Industry - (5-25 million assets)	NA	1.65	1.39	0.56	1.21

Shows how the total debt of the company relates to the equity of the stockholders.

Fixed Assets/Net Worth	**2006**	**2005**	**2004**	**2003**	**2002**
CBRL	4.20	1.40	1.27	1.31	1.26
Industry - (5-25 million assets)	NA	1.47	1.31	1.37	1.37

Shows the percentage of assets tied up in fixed assets compared to total equity. High ratios compared to the industry may indicate low working capital or high levels of debt and increased susceptibility to unexpected business changes.

Total Assets to Sales	**2006**	**2005**	**2004**	**2003**	**2002**
CBRL	0.64	0.60	0.60	0.60	0.61
Industry - (5-25 million assets)	NA	0.58	0.44	0.57	0.56

Ratio of the total asset investment to the sales generated by those assets. A high ratio may indicate poor sales or that assets are not being fully utilized.

Return on Sales: Net Income/Net Sales	**2006**	**2005**	**2004**	**2003**	**2002**
CBRL	0.044	0.049	0.048	0.048	0.044
Industry - (5-25 million assets)	NA	0.019	0.032	0.030	0.034

Measures the profits earned per dollar of sales. As with many ratios, it is best to compare this ratio with the industry and over time to look for trends. An increasing ratio may indicate the company is growing more efficient, while a decreasing ratio could be a predictor of future financial difficulties.

Return on Assets: Net Income/Total Assets	**2006**	**2005**	**2004**	**2003**	**2002**
CBRL	0.069	0.083	0.079	0.080	0.073
Industry - (5-25 million assets)	NA	0.035	0.066	0.054	0.049

This is a key indicator of profitability. The ROA indicates how effectively the company is at earning money on its investment in assets. A higher ROA ratio shows a company is earning more money on its investment.

Return Equity: Net Income/Stockholder Equity	**2006**	**2005**	**2004**	**2003**	**2002**
CBRL	0.385	0.146	0.129	0.134	0.117
Industry - (5-25 million assets)	NA	0.099	0.134	0.137	0.303

The ROE measures a company's ability to earn an adequate return on the capital invested by the stockholders.

Source: Industry Data D&B Business Ratio
Cracker Barrel ratios calculated from annual 10-K data

METROPOLITAN LITTLE ROCK RESTAURANT INDUSTRY

Primary Research on Down Home Café Customers in Metropolitan Little Rock

In addition to drawing new customers, management also wanted to encourage current lunch or dinner customers to visit a Down Home Café at different times. To gain important insight into both customers and non-customers, management commissioned a survey to better understand the flagship Metro Little Rock market for Down Home Café. The stated goal was to establish baseline data on the perceptions and images of the Down Home Café held by both lunch and dinner restaurant diners in the Little Rock market. The study consisted of 617 respondents who completed phone surveys. While respondents were randomly selected, the sample was controlled to ensure an approximately equal proportion of male and female respondents. The sample was also screened for relevant biases (e.g. restaurant employees were excluded).

The survey results indicated that the customer base was divided between lunch and dinner patrons. Over half of the respondents had either never eaten at a Down Home Café for lunch (32%) or rarely eat lunch there (19%). Similarly, nearly half of the respondents had either never eaten dinner at a Down Home Café (24%) or rarely eat there for dinner (22%).

The survey indicated that awareness levels were good. When asked which family-style restaurant comes to mind first, nearly 35% named Down Home Cafe unaided. The next highest unaided awareness score was for Ryan's Family Steakhouse at just over 8%. The Down Home Cafe team was excited by the awareness results, but there was one cause for concern. The top-of-mind (unaided) recall was relatively low for seven to twelve year olds. Their recall levels were less than 14%. In fact, the Down Home Cafe finished third, behind a local cafeteria (Franke's) and Chuck E. Cheese.

A recent survey of those who had eaten at Down Home Café indicated that most (67%) rate the Down Home Cafe food quality as "excellent" and another 26% rated it "good." The same survey indicated that customers believe Down Home Cafes offer value where more than 61% of respondents rated value as "excellent" and 29% rated value as "good." The executive team interpreted this performance as very good, and generally equal to or better than their closest competitors.

After poring over all the research, Robertson concluded that the following results were the most relevant:

- Recent Down Home Café customers generally perceived high value from the restaurants
- Food quality and variety (especially vegetables) were seen as strong points
- Fairly pleasing atmosphere (particularly among older patrons)
- Brand image and emotional bond were not fully developed
- A high percentage of the potential market was aware of the Down Home Cafe, but not a "user"
- Large and growing demand for carry-out meals (this was true for all casual-dining restaurants, not just Down Home Cafés)
- The population's demand for restaurant meals was high and growing
- Substantial future increase in the proportion of seniors in Down Home markets
- Large proportion of 10- to 21-year-olds (the newly named Millennial Generation) in Down Home markets
- Substantial number of dual-wage-income families in Down Home markets
- Market perceived Down Home narrowly as strictly family-style
- Many locally-operated national chains had big marketing budgets, e.g. Cracker Barrel, Chili's, Applebees, Luby's

RECENT RESULTS

The Down Home chain of restaurants generated approximately $29 million in revenue last year and was profitable. However, growth in existing restaurants has been elusive. However, while same-store sales (defined by management as stores open for two years or more) have been essentially flat over the past three years, restaurant sales nationally were growing at an average annual rate of 4.5%.

Lunch business had been a consistent strong point which accounts for 42% of total Down Home sales while the U.S. restaurant industry average is 28%. On the other hand, the Down Home Cafés had not made consistent inroads into the dinner market. Details are presented in Exhibit 8.

Exhibit 8

Selected Data: Down Home Café	**2006**	**2005**	**2004**	**2003**	**2002**
Accounts Receivable	492,707	487,828	480,619	738,663	547,172
Inventory	346,720	343,287	338,214	337,414	334,383
Current Assets	2,837,626	2,809,531	2,768,011	2,708,432	2,796,659
Fixed Assets (PP&E)	9,501,200	9,048,762	8,601,485	7,650,842	8,188,005
Total Assets	15,275,101	15,123,862	14,900,357	13,519,299	12,132,826
Accounts Payable	702,563	695,607	685,327	665,709	719,430
Current Liabilities	2,719,011	2,692,091	2,652,306	3,000,249	2,725,729
Stockhld Equity (Net Worth)	9,396,452	8,434,001	7,481,079	6,640,880	5,869,210
Total Liabilities	7,605,873	7,530,567	7,419,278	6,878,419	6,263,616
Total Liab & Net Worth	15,275,101	15,123,862	14,900,357	13,519,299	12,132,826
Net Sales	29,074,033	28,786,171	28,360,760	27,754,320	25,367,195
Cost of Goods Sold	14,703,504	14,557,925	14,378,197	14,594,988	13,950,436
Gross Profit	14,334,224	14,192,301	13,982,563	13,159,332	11,416,759
Net Income	843,147	863,585	865,003	849,282	778,773
Working Capital	-308,984	-305,925	-301,404	-454,162	-87,918

Source: Financial Data for Down Home Café is fictitious.

CHALLENGES GOING FORWARD

Growth for the Down Home Cafés could come from two areas: adding new restaurants and/or generating additional sales at existing ones. Management's stated goal for expansion was two to three new store openings each year. But, having considered the same-store sales results, Robertson believed he and his team needed to focus their immediate attention on the existing Down Home Cafés. His concern was that, among potential customers making a restaurant decision, Down Home was probably in the consideration set but was not a first choice. In the restaurant business, Robertson thought to himself, the gap between "first choice" and "second choice" could be substantial.

Robertson believed he and his team had several questions to answer, and answer quickly:

- How can we get sales growing again?
- Does the Down Home Café need a new persona?
- What is the customer experience at our restaurants, and how can we make it better?
- What should we do with the soda fountain concept? Will it add to or dilute the overall brand of the restaurants?
- Do we need to conduct more primary research? If so, what type of research would be needed to paint the clearest picture of Down Home Café customers and to plan advertising and promotion? Would money spent on research be better spent elsewhere?
- How can we increase business among younger consumers (under 21) and older ones (65 and over)?

- How can we encourage repeat business--and how can we move business to dinners and take-out without undercutting our strong lunch business?
- Is there a role for public relations and/or in-store promotions?

Before his meeting with Howe and Ryan, Robertson decided to make some notes. From a legal pad, he took out four blank pages. On the top of one page he wrote, "What can we do in the short term to heat up sales?" On the second page he wrote, "What is the Down Home Café brand all about?" On the third page he wrote, "What changes, if any, should we make in our restaurants to change the ambiance?" On the top of the last page, he wrote, "Building a competitive advantage for Down Home Cafés."

The Down Home Café: Instructor's Manual

Intended Courses and Audience

The Down Home Café case, with its emphases on branding, segmentation, and marketing strategy, is targeted primarily for undergraduate and graduate courses in marketing management and marketing strategy. It is also useful for courses in marketing research, entrepreneurship or small-business management, or consumer behavior.

Teaching Plan

Our suggested teaching plan moves sequentially through six steps: (1) evaluating the current marketing situation faced by the management of Down Home Cafés; (2) constructing a Strengths/Weaknesses/Opportunities/Threats (SWOT) analysis; (3) identifying the distinct competencies of the business; (4) identifying the benefits to customers from dining at Down Home Cafés; (5) evaluating the positions of competitors in consumers' minds; and (6) specifying recommendations and action steps that would lead to a competitive advantage.

In developing a situation analysis, students will need to synthesize several sources of information presented in the case—such as secondary research from the National Restaurant Association, primary research (in the form of both scientific and convenience samples) of Down Home Café customers, and representative store sales of competitors. Students are also presented with a description of the restaurants and its product offerings.

A SWOT analysis will help students see the bigger picture facing Down Home Café management. A sample SWOT is presented for the instructor's use in the Teaching Note Exhibit. As the SWOT is developed in class discussion, it should become apparent to students that Down Home occupies a shaky "middle ground" in their markets and in consumers' minds. The restaurants are mid-priced, catering to several market segments, and (with convenient locations and a wide menu selection) probably represent a safe compromise choice for groups of business customers during weekday lunches or families looking for a dinner choice. On the other hand, the restaurants do not have a strong brand image or persona. Exacerbating this problem is the issue of the soda fountains located within the Cafés. The soda fountains, designed to appeal to younger children and diners looking for a dessert treat, are visually striking and distinct from other dining areas in the restaurants. A major concern for management is how to increase revenue from the soda fountains while integrating them into the overall Café persona. In short, management is looking to establish a unique brand for Down Home Cafés and, perhaps, also establish a "brand within a brand" for the soda fountains. This is a difficult task to accomplish without diluting brand meaning. Further, the soda fountains were installed several years ago to replace bars (which were faring poorly in terms of generating revenue per square foot). The Down Home Cafés are thus differentiated by a family-friendly atmosphere but may suffer by comparison to competitors such as Applebee's or Olive Garden.

The SWOT analysis should help establish the things that Down Home Cafés do well. The restaurants are profitable, and the vast majority of customers believe there is good value for money spent. The Cafés must succeed on volume, because the average ticket price per customer ($6.75) is relatively low—nearly three dollars lower than the average ticket price per customer in casual-dining restaurants nationwide ($9.50). As evidence of this, point out to students that no single Down Home Café is among the top ten restaurants (by gross revenue) in either of the two largest metro areas where the company has stores; see Exhibit 6. This suggests that management must keep a close watch on expenses, which probably limits the extent of investment they would be willing to make.

Next, we suggest a discussion of the benefits the restaurants offer customers. Down Home Café management has a great deal of background information on *what* diners do, but little reliable information about *why* those decisions are made. Students should be reminded that benefits are psychological and emotional as well as objective. At this point, students can evaluate the need for—and affordability of—additional primary research. If this case is used to address marketing research decisions, then students could be prompted to suggest the types of research that are most appropriate (mystery shopper programs, surveys versus focus groups, convenience samples of customers versus random samples of area diners, etc.).

Students should also discuss Down Home's competitive environment; we suggest instructors use the Teaching Note Exhibit as a template for helping students locate competitors' offerings. Management considers Down Home Cafés to be positioned in the center of the casual-dining segment, and at a lower price (and quality) point than that of many competitors. Customers rate the restaurants' food quite positively, although the total customer experience is probably weighed down by a relatively generic atmosphere within the restaurants. Down Home Cafés are a lower-priced alternative to chains such as Olive Garden, Applebee's, or Outback—but the Cafés also lack the ambiance and "buzz" associated with those national competitors. If management chooses to offer higher-priced menu items without also improving the perceived quality of the dining experience, then Down Home will lose its competitive niche.

Trend Analysis	**2006**	**2005**	**2004**	**2003**	**2002**
Net Sales	29,074,033	28,786,171	28,360,760	27,754,320	25,367,195
% Increase	1%	1%	2%	9%	
Cost of Goods Sold	14,703,504	14,557,925	14,378,197	14,594,988	13,950,436
Cost Goods Sold as % of Net Income	50.57%	50.57%	50.70%	52.59%	54.99%
Gross Profit	14,334,224	14,192,301	13,982,563	13,159,332	11,416,759
Net Income	843,147	863,585	865,003	849,282	778,773
% Increase	-2%	0%	2%	9%	
Net Income as % of Sales	2.90%	3.00%	3.05%	3.06%	3.07%
Working Capital	-308,984	-305,925	-301,404	-454,162	-87,918

Cost of goods sold as a percent of net sales has decreased over the last five years. At the same time, net income as a percent of sales has decreased. This indicates an increase in operating costs as a percent of sales. The high employee turnover may be the cause of the increased operating cost percentage. New employees are less efficient.

Current Ratio: Current Assets/Current Liabilities	**2006**	**2005**	**2004**	**2003**	**2002**
CBRL	0.91	0.64	0.82	0.71	0.74
Down Home Café	1.04	1.04	1.04	0.90	1.03
Industry - (5-25 million assets)	NA	0.80	1.00	1.00	0.90

Dixie Café's current ratio is slightly higher than the industry norm. This indicates that Dixie should be able to pay its debt in the near future.

Total liabilities to Net Worth	**2006**	**2005**	**2004**	**2003**	**2002**
CBRL	*4.56*	*0.76*	*0.63*	*0.67*	*0.61*
Down Home Café	0.50	0.50	0.50	0.51	0.52
Industry - (5-25 million assets)	NA	1.65	1.39	0.56	1.21

Total liabilities to net worth for Dixie Café are significantly less than the industry norm and CBRL. Companies with a high level of debt to equity have a much riskier financial structure. The debt ratio for the industry in the size class that Dixie Café belongs indicates a considerable amount of financial risk and corresponding increased chance of loan default. Dixie Café has a much more conservative financial structure and less risk of loan default than the industry as a whole. Note the dramatic increase in this ratio for CBRL is due to the decrease in equity resulting from the major stock repurchase in 2006.

Fixed Assets/Net Worth	**2006**	**2005**	**2004**	**2003**	**2002**
CBRL	4.20	1.40	1.27	1.31	1.26
Down Home Café	1.03	1.08	1.15	1.15	1.40
Industry - (5-25 million assets)	NA	1.47	1.31	1.37	1.37

Dixie Café's ratio is lower than both the industry and CBRL. This corresponds to the company's lower level of debt. The fixed asset/net worth ratio indicates that Dixie Café would be less susceptible to unexpected business changes.

Total Assets to sales	**2006**	**2005**	**2004**	**2003**	**2002**
CBRL	0.64	0.60	0.60	0.60	0.61
Down Home Café	0.53	0.53	0.53	0.49	0.48
Industry - (5-25 million assets)	NA	0.58	0.44	0.57	0.56

Dixie Café's relatively low ratio of 'total assets to sales' may indicate an efficient use of the company's assets. However, it may also indicate that the company has not invested as much in their restaurants as other firms in the industry. The lack of ambiance was noted by the consultants.

Return on Sales: Net Income/Net Sales	**2006**	**2005**	**2004**	**2003**	**2002**
CBRL	0.044	0.049	0.048	0.048	0.044
Down Home Café	0.029	0.030	0.031	0.031	0.031
Industry - (5-25 million assets)	NA	0.019	0.032	0.030	0.034

Return on Assets: Net Income/Total Assets	**2006**	**2005**	**2004**	**2003**	**2002**
CBRL	0.069	0.083	0.079	0.080	0.073
Down Home Café	0.055	0.057	0.058	0.063	0.064
Industry - (5-25 million assets)	NA	0.035	0.066	0.054	0.049
Return Equity: Net Income/Stockholder Equity	**2006**	**2005**	**2004**	**2003**	**2002**
CBRL	0.385	0.146	0.129	0.134	0.117
Down Home Café	0.091	0.103	0.115	0.128	0.133
Industry - (5-25 million assets)	NA	0.099	0.134	0.137	0.303

All three of the return ratios have been decreasing over the last few years. Although Dixie Café is still producing higher returns than the average for the industry, the trend is not good. Since cost of goods sold as a percent of sales has remained steady or declined during this time period, management should look at their other operating costs.

Finally, students should be able to recommend strategy and action steps.

Strategic Frameworks to Analyze the Down Home Café

Treacy and Wiserma, in their seminal article about the strategic development of market leadership, describe three basic "value disciplines" for forms to follow to gain competitive advantage. The main idea is that firms must meet threshold levels of each discipline but must differentiate itself by following a particular value discipline.

<u>Customer Intimacy</u> – basis of competition whereby the organization develops an overall strategy of developing a deep understanding of the market's wants and needs (usually through some aspect of customer relationship management) and then based on the organization's learning about the customer, anticipate the customer's wants and

needs in the development of goods and services. Students who choose this value disciple for the Down Home Café must demonstrate that they can develop systems to track customer preferences and then adjust menu selections (and periodically restaurant décor, ambiance, etc.) to meet the wants and needs of its core customer base.

Product Leadership – basis of competition whereby the organization aggressively incorporates new technologies or combines existing technologies in unique ways in developing new goods and services for customers. Students who choose this value discipline must believe that the Down Home Café compete of the basis of superior food and/or bringing new and innovative "Southern" menu selections.

Operational Effectiveness – basis of competition whereby the organization is diligent in the study of its value chain activities and processes that engage the customer such that they are produced or performed in such a way as to minimize internal cost and/or customer inconvenience. Students choosing this value discipline for the Down Café believe they are able to efficiently produce a range of menu items at a cost that enables them to compete at a relatively low price while remaining profitable.

Distinctive Competencies – David (2007) in his text book defines distinctive competencies as "a firm's strengths that cannot easily be matched or imitated by competitors." We operationalize this definition by identifying a firm's distinct competencies as being those strengths (selected from the SWOT Analysis) that, when taken together, make the organization different, and better, than its competitors competing for a specific target market. These strengths (usually three to five) are blended together and result in giving the organization a unique and favorable marketplace position. These are the results of the organization's value chain activities that 'clear' the organization and become discernable by the market (or potentially can become discernable).

Distinctive competencies are those processes and attributes of an organization creating a unique position, relative to its competitors, among the targeted market. This mixture should be a recipe for success that, in combination, creates a unique essence, or persona, for the organization that relevant audiences view as positive and desirable. In short, they enable organizations to be perceived as different and better.

Sustainable Competitive Advantage – We use a market based perspective rather than a resource based perspective. A market based SCA exists to the degree that the organization wisely chooses those key opportunities (identified in the SWOT Analysis) whereby all or a portion of the strengths from the Distinct Competencies are the lynch pin that the organization uses to leverage those opportunities in such a manner that they become preferred by the target market.

A sustainable competitive advantage (SCA) is the organization's ability to perform in one or more ways that competitors, in a given market, cannot or will not match. An SCA occurs when a firm or organization matches its distinct competencies with one or more significant, relevant marketplace opportunities (key opportunities). This results in a protection from competition because the distinct competencies exercised in a particular marketplace opportunity represent barriers to competitors. Over a period of time, a sustainable competitive advantage allows an organization to most favorably reach a targeted group.

SO Strategies (Leverage) - This should be the most effective strategies because the tactics will combine organizational strengths with the most promising developments in the environment (opp.). These tactics should play the major role in leading an organization to their goals.

WO Strategies (Compensate) - These strategies require compensation for weaknesses by utilizing those environmental conditions most favorable to the organization. Successful tactics will mask or hide the weaknesses.

ST Strategies (Neutralize) - Threats in the environment exist for every organization. Tactics falling from neutralizing strategies attempt to offset these via the use of specific strengths. These tactics help lead to goal attainment by undermining particular threats.

WT Strategies (Investment) - Threats that correspond to organizational weaknesses are the most ominous. This often requires a major investment of resources to minimize the potential devastating impact. The desired impact of this investment results in weaknesses being turned into strengths.

Citations

1. Fred R. David (2007), *Strategic Management: Concepts and Cases* (11th edition) Prentice Hall.
2. Michael Treacy and Fred Wiersema (1993), Customer Intimacy and Other Value Disciplines, *Harvard Business Review*, Jan.-Feb. 1993.

The Down Home Café: Assignment Questions and Analyses

1. What are the key market segments for Down Home Cafés? Consider segmenting the total market according to geography (the proximity of restaurants to home and work), demographic variables, and purchase/usage behavior.

Down Home management has tended to focus on segments defined by dining occasion (weekday lunch, weekend dinner, etc.). Down Home's advertising agency has presented management with ten segments based upon decision-making processes of customers; they believe the greatest potential for growth lies with "Traditionals" for weekday dinner occasions. Both management and the agency use demographic variables to further describe market segments.

Most students will focus on one means of segmentation at a time when attempting to describe customers and potential customers. 'A' students will combine segmentation approaches for a more complete picture, describing segments according to benefits, demographics, and usage occasion.

2. What do you imagine to be the guest's experience in a Down Home Café? In that experience, what might be unique, comforting, or memorable?

Down Home Cafés are designed to be comfortable and family-friendly. Management has chosen not to incorporate any particular visual theme in its restaurant interiors, with one exception. The soda fountain area has been designed to appeal to kids, with a striking black-and-white floor and colorful neon lighting. This soda fountain was conceived as an area where children could have a dining adventure apart from their parents, or where the family could gather after the meal for a dessert treat.

Despite the obvious Southern quality of the Down Home name, and the popularity of its several "from-scratch" menu items, no Southern themes have been carried into the interior design or décor. One point for class discussion is whether the Cafés would grow with a more consistent Southern persona that extended the name into the dining experience. One possible advantage of this strategy would be to create a more memorable experience that reflects the locations of the restaurants and the preferences of the Cafés' patrons. A possible disadvantage to this strategy lies in the fact that Cracker Barrel restaurants, considered to be Down Home Cafés' chief competitor, has already established a strong "country" niche.

Students should recognize that no primary research has addressed customers' perceptions of the dining experience in a Down Home Café. 'A' students will note that the research reported in the case has only addressed summary evaluations of food quality and value for the money—and they will suggest qualitative and/or quantitative research (such as surveys, focus groups, and observation) to fill the gaps.

3. What, if anything, is wrong with Down Home's current brand persona? If a change is needed, what should the new branding strategy be?

It is probably premature to assume that anything(s) in particular are "wrong" with the Down Home Café brand. The restaurants seem to have a secure market position and they continue to be profitable. However, one indication of some problem is that there has been no revenue growth during the past three years (this result comes at a time when U.S. restaurants' revenue growth was averaging 4.5%).

The fact is that management has no primary research results that might address the issue of Down Home's brand image (see Question #2 above). Management might consider commissioning research that would specifically address perceptions of Down Home vis-à-vis competitors along relevant attributes.

In discussing branding strategy options, 'A' students will consider these two dimensions:

(1) What are competitors' existing positions? Down Home Cafés compete against a number of well-funded and aggressive national restaurant chains with established brand concepts; any attempt to take on one of these competitors head-to-head will likely fail.
(2) Can Down Home consistently deliver on its promises? A successful branding strategy will encapsulate a promise to the consumer; that promise must be believable and it must be kept. As examples, Down Home Cafés are already considered by customers to deliver good food and consistent value, so those attributes are believable and deliverable--but, with employee turnover in the range of 300%, it would be difficult to deliver superior customer service.

4. How can Down Home management stimulate sales in certain weak areas (dinner, take-out, soda fountain, etc.) without harming its strong core business?

Down Home Cafés have succeeded in the weekday lunch segment by delivering on convenience and the price/value dimension. They have also succeeded, to a somewhat lesser extent, as a family dinner destination. The Cafés offer a comfortable atmosphere and a wide number of menu selections that appeal to young and old alike.

Most students will be able to generate ideas for building sales during other times through in-store communications (cards placed on tables, for example) or promotions (coupons delivered on customer receipts, for example). Such tactics may be effective, although they are price-driven and inherently short-term in nature.

'A' students will recognize that a business can also extend its brand over the longer term by meeting new consumer needs. As one example, were we to learn that families wanted a fun nighttime destination following movies or other outings, management might consider promoting the soda fountain as a separate option for families. Management might even consider extended hours for the soda fountain on Fridays, Saturdays, and Sundays.

Epilogue

Down Home's advertising agency recommended a new strategy: they encouraged management to emphasize a Southern theme for the restaurants that they believed would differentiate them from Cracker Barrel's "old-fashioned country" persona and the Black-Eyed Pea's "home cooking" image. A marketing campaign was launched (television, radio, outdoor board, print) that was intended to develop a southern persona for the brand. Each message was completed with the positioning line of "Send your mouth South!" This is an action oriented (send), universal (your), fun line (mouth south). Its claim is that the Down Home will deliver a Southern eating experience.

In conjunction with the initial marketing campaign, the Down Home management replaced the old-fashioned soda fountain with a new, contemporary ice cream/dessert room called The South Pole. From the marketing plan written by their agency, "The South Pole is a place where children, adolescents, teenagers and older customers can enjoy a great ice cream treat in a bright, exciting atmosphere. Decorated in South Florida colors (coral, pink, aqua, violet) The South Pole is a special place that Antarctic animals and cool humans come to have fun."

To better meet the wants and needs of its different segments, management developed and revamped the menus. A new "tweens" menu was created as an additional inducement to reach the Millennial decision-maker. This menu had items not appearing on the "adult" menu or the "kids" menu. The kids' menu was revised to include the new South Pole as its theme and the desserts created especially for the South Pole. Finally, the adult menu was changed to feature new "Southern" entrée items not available at lunch. In addition, limited time entrée items were introduced for dinner that averaged roughly $1.50 higher than the average item. These items were promoted heavily.

The results from the first year were encouraging. Same store sales were up by 3.5% and per person ticket prices exceeded $7.00. And the results of a family magazine's readers' poll named the Down Home Café as the "Readers Choice" winner in the favorite children's restaurant category.

Teaching Note Exhibit

Results of a SWOT analysis

Strengths
- high awareness and recognition of the brand name
- customers perceive high value
- high food quality and variety (especially vegetables)
- average price/ticket includes a broad market segment of potential customers
- efficient operations
- lunch business (except for Saturdays)
- pleasing atmosphere, especially with older guests

Weaknesses
- flat same-store sales for the past three years
- brand image and emotional bond not fully developed
- poor sales per square foot within the soda fountain areas
- dinner sales and Saturday lunch business
- high employee turnover

Opportunities
- high percentage of the potential market is "aware non-user"
- large and growing demand for evening carry-out
- rising demand for restaurant meals overall
- substantial future rise in the senior market
- growth in the number of dual-wage-earner families
- "Southern" theme is increasingly popular
- growth in the Millennial Generation (10-21 year-olds) who are given more decision-making ability

Threats
- market perception as strictly a family-style restaurant
- competitors with big marketing budgets, especially Cracker Barrel
- low unemployment and potential worker shortages
- vulnerable to an economic slowdown
- government regulations, especially minimum-wage hikes