Cracker Barrel & Denny's Company Analysis

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Executive Summary

After conducting an intensive analysis of the chain restaurant industry, Cracker Barrel, and Denny's, the restaurant that is best strategically fit for the future of the industry, based on the key criteria identified, is Cracker Barrel. The criteria used during the analysis of Cracker Barrel and Denny's include Covid impact, food management, social responsibility, healthy eating index, diversity and inclusion, customer value, and company financials. Below are some key takeaways from each criterion identified during the analysis:

- Regarding the pandemic, Cracker Barrel has ensured frequent sanitation of the famous rocking chair and has created an app to play the memorable "peg game" in addition to the increased cleaning methods and procedures established by both restaurants.

- Denny's saw a higher increase in their product cost/sales ratio, and Cracker Barrel had a lower increase in their product ratio, which shows that Cracker Barrel was better prepared to deal with the downturn in the economy due to Covid.

- Both companies have released social initiatives and commitments to reducing energy usage and the use of LED lights, however, Cracker Barrel has implemented new technology to reduce water usage such as higher temperature dish washers.

- With the increase in the Healthy Eating Index, both restaurants offer new, healthier items on their menus. Furthermore, Cracker Barrel offers a "Tasty Alternative" section with meals that are 600 calories or less.

- Cracker Barrel provides diversity and inclusion by requiring diversity training and providing resource groups whereas Denny's recognizes and values their employee's differences in the workplace.

- Both restaurants value their customers, which is shown through Cracker Barrels' conveniently located restaurants off interstates, and Denny's 24/7 food service.

- Within the company financials, they both struggled during the pandemic. However, Cracker Barrel was able to recover, whereas Denny's struggled to increase their ROA to what it was before the pandemic.

The criteria used for comparing Cracker Barrel and Denny's helped determine which company is in the best strategic position for the future. With the information provided by an extensive company analysis, Cracker Barrel has shown itself to be the most strategically positioned for the future success in the industry.

Introduction

Denny's and Cracker Barrel are major competitors within the chain restaurant industry. While the companies are having their similarities, this analysis of the two companies determines which is better strategically positioned for the future. The analysis conducted uses 7 key criteria to determine which of these two companies is best strategically positioned for the future. Starting the criteria off with how the companies reacted to covid when it comes to new measures they had to take. The next criteria will show how well the companies were able to deal with covid financially by looking at their product costs. Social responsibility during the pandemic is next, followed by healthier menu items. Diversity and inclusion is playing a larger role than ever in the business world. Then, there is customer value and finally the company financials when compared to the industry. These criteria used in the analysis were chosen to show whether Denny's or Cracker Barrel is more strategically positioned for the future.

Covid Impact

The Chain Restaurant industry has been impacted by the Covid-19 pandemic, however, there have been new adjustments and regulations implemented for individual restaurants to continue functioning. The way restaurants re-establish their protocols and practices after the pandemic is crucial to the success of their business in the future.

Denny's and Cracker Barrel have put out individual statements regarding the pandemic and the adjustments they have made to keep their business operating, as well as keeping their customers safe, happy, and healthy. Denny's released a press statement about the pandemic and how they have implemented additional cleaning procedures such as stricter hand-washing techniques, food safety procedures, and have increased their personal hygiene standards (Denny's Corporation Provides Business Update in Response to Covid-19, 2020).

On the other hand, Cracker Barrel had to focus on the safety of their customers in the dining rooms, as well as in their retail stores. Furthermore, Cracker Barrel now conducts a well-being screen of their employees each day to ensure that all their employees are safe and healthy (Response to coronavirus (COVID-19): Cracker Barrel, n.d.). Along with the initial health screen, they do midday screening to make sure that their employees have not developed any symptoms while working (Response to coronavirus (COVID-19): Cracker Barrel, n.d.). In addition to their original cleaning measures, Cracker Barrel has also stated in their *Response to Coronavirus* statement that they have added new cleaning procedures and now provide wipeable menus and digital menus at the tables. As many restaurants have done, all of Cracker Barrels' employees wear masks, try to maintain a six-foot distance when possible, and posted signs on the floors to mark out six-foot distances.

One aspect that sets Cracker Barrel apart from other restaurants is their ability to continue providing their customers with the well-known activities and experiences they have. On Cracker Barrel's frequently asked questions, they specifically mention how they wipe down the rocking chairs outside on the front porch so that customers can still partake in the tradition of sitting and rocking in it (Frequently asked questions, n.d.). Additionally, Cracker Barrel wanted to continue the beloved peg game at the tables, so they created a free app for their customers to download and play while waiting for their food. As seen, Cracker Barrel has the edge up in retaining their current customers by continuing to provide all the beloved traditions at Cracker Barrel, all while maintaining the safety and satisfaction of their customers.

Food Management

Everybody was impacted by Covid-19, but at the beginning of the pandemic there were concerns about how restaurants would deal with food waste. In the context of the companies, with the scale that they do business at, as well as many of their locations being franchised, it can be difficult to find information on their inventory turnover ratios. However, Denny's did release a breakdown of their operating margins. March 2019, Denny's had restaurant costs making up 24.3% of their total sales. March 2020, just after the Covid 19 pandemic hit, Denny's had product costs or 24% of sales (*Denny's Corporation Q1*, 2020). Denny's was able to reduce the relative costs associated with by .3%. Although, moving into the second quarter report for 2020, Denny's relative product costs had increased to 28.5% (*Denny's Corporation Q2*, 2020). However, by the end of the third quarter costs had been reduced to 25.5%. Over these nine months, Denny's let their product costs within 5% (*Denny's Corporation Q3*, 2020).

Cracker barrel's fiscal year has the beginning of the pandemic in their third quarter (*Cracker Barrel Q3*, 2020). It is important to compare the restaurant side of Cracker Barrel since there is little food waste in the retail side of the industry. At the beginning of May 2020, Cracker Barrel reported 26.16% product costs to sales. Moving to the end of July 2020, product costs were down to 24.81% of sales. Within those few months, Cracker Barrel was able to reduce their relative costs related to food (*Cracker Barrel's Q*4, 2020).

These are not direct numbers of "Food Waste" however, increases in costs of food sales at the beginning of Covid-19 would only be attributable to food being wasted. Cracker Barrel only realized a 2% increase in costs during the hardest part of Covid-19, whereas Denny's had a 5% increase throughout the worst part. Also, not to mention that the number for Cracker Barrel is inflated because they did not give a breakdown of their labor costs and their actual product costs like Denny's did. Therefore, Cracker Barrel is and has shown they are better suited to deal with an economic crash better than Denny's. One thing that was emphasized during covid was the social responsibility that companies have.

Social Responsibility

A company's social responsibility is an important criterion that was analyzed to determine the success of the companies. While the new industry trend of sustainability and being environmentally aware is rising, it is important for businesses to react to this trend and transform their policies to match this transition. Both Denny's and Cracker Barrel have created social initiatives and are committed to achieving those goals.

Denny's has specified five major areas regarding their social initiatives that they are committed to, which include family and community, food, diversity, people, and the environment. Denny's has committed to the environment by reducing their impact at the corporate level, restaurant level, and everywhere in between (Environment: Social Impact: Denny's, n.d.). Additionally, Denny's has reduced their natural gas usage, water usage, and energy usage by utilizing LED lights in their restaurants, and packaging waste by getting rid of all Styrofoam containers.

Cracker Barrel has also identified their "Green Operations" that they are committed to. They utilize LED lights, high efficiency water heaters, alternating current (AC) and direct current (DC) to reduce electricity usage and fewer maintenance needs (*Cracker Barrel 2021 ESG Report*, 2021). With regards to food waste, Cracker Barrel has announced *Food for Families* which is a "platform to fight hunger in America, which focuses on three key areas: addressing food insecurity, supporting community needs and reducing food waste" (*Cracker Barrel 2021 ESG Report*, 2021). Additionally, they have partnered with Feeding America in hopes of piloting and launching a food donation program in the upcoming Spring (*Cracker Barrel 2021 ESG Report*, 2021). Cracker Barrel has also made some initiatives related to reducing water waste such as using dishwashers with high-temperature water to wash dishes and installing systems that generate a continual flow of water to reduce waste. As shown, Cracker Barrel has stated their initiatives and are committed to achieving them to conform and adapt to the new changing preferences and ideals of their customers.

Healthy Eating Index

Healthy menu options are a criterion when it comes to restaurants like Cracker Barrel and Denny's. As consumers are more concerned with their eating habits, they are looking for restaurants that offer healthier options (Hiner, 2021). Cracker Barrel has many options on its menu from traditional breakfast food to lunch and dinner options. Their menu also consists of a section titled "Tasty Alternative", which provides items that are under 600 calories with 15 grams of fat or less (Frequently Asked Questions, n.d.). Cracker Barrel suggests that their customers with allergies or dietary restrictions speak with the restaurant manager to make sure that the kitchen knows the needs of the customer and creates the necessary food correctly (Frequently Asked Questions, n.d.). With the steps towards healthy food that Cracker Barrel has been making, it is evident that they are following consumer trends and adapting to increase sales of the industry as well as customer satisfaction and retention.

As Denny's provides a similar menu to Cracker Barrel, they have different ways of supplying healthy options. Denny's believes the quality of their food to be their main attraction. They work with suppliers who are more sustainably friendly and follow Denny's food safety procedures. A partnership with Beyond Meat that was made with Denny's two years ago helped them extend their menu to include meatless protein for any meal of the day to accommodate the needs and desires of their customers (Food & Supplier Integrity: Social Impact: Denny's, n.d.). As Denny's works with more sustainably friendly suppliers and expands their menu with healthier options, their menu offerings make them an appealing place to a variety of customers. Since every customer has different preferences and possible restrictions, the act of restaurants tailoring their menu to accommodate those customers can increase their loyalty and retention as well as profits for each individual restaurant.

Diversity and Inclusion

Another key criterion involved with the success of a restaurant in the Chain Restaurant industry is the act of establishing policies and procedures related to diversity and inclusion. As diversity and inclusion are very popular within the media and the world around us, it is important for companies to recognize and establish policies and practices related to these transforming concepts.

Cracker Barrel has stated the importance of their employees and valuable perspectives that each of their workers, suppliers and customers bring in daily interactions (Diversity & inclusion in the workplace: Cracker Barrel, n.d.). To promote diversity and inclusion, Cracker Barrel had their diversity council and executive members complete an unconscious bias training to be able to identify bias, cultivate connections with other cultures, and become more courageous in the workplace (*Cracker Barrel 2021 ESG Report*, 2021). Along with the diversity training, Cracker Barrel offers many employee resource groups to uphold their belief that they cannot take care of customers without taking care of their employees first (Diversity & inclusion in the workplace: Cracker Barrel, n.d.). Some of the resource groups provided to employees include Women's Connect, MERGE, LGBT Alliance, United Cultural Awareness Network and Cracker Barrel Military Volunteers.

Denny's has also released statements about their diversity and inclusion practices in the workplace and has been recognized with a few awards. Two of the awards they have received include the Human Rights Campaign's *Corporate Equality Index: Best Places to Work in 2021* and Diversity Inc's *Top Noteworthy Companies in 2021*. (Diversity & Inclusion: Social Impact: Denny's, n.d.). Additionally, Denny's corporate commitment states how they are committed to embracing the unique qualities of all their employees and valuing those differences in the workplace (Diversity & Inclusion: Social Impact: Denny's, n.d.). With the new trends of diversity and inclusion, now more than ever, it is extremely important for companies to create new practices and procedures that best promote and support their diversity and inclusion commitments as well as to create the most supportive environment for their customers and employees.

Customer Value

A key criterion for the company analysis includes the value that the restaurants have created for their customers, their location, and how fast their service is. Cracker Barrel, owning 665 restaurants, values American culture by developing a specialty in home-style country dishes. The company also has its restaurants decorated with rocking chairs and seasonal décor, which makes the chain restaurant feel more like home (Cracker barrel old country store, inc., 2021). Customers want to know what individual restaurants value to create meaningful decisions as to where to spend their time and money. Restaurants that have clear values and objectives can help attract new customers as well as retain the ones they had.

The location of Cracker Barrel's restaurants is conveniently situated next to interstates to attract people who want to stop at a sit-down restaurant that isn't too far out of their way. Cracker Barrel's hours of operations vary but they are usually open 15 hours during the day, which allows daytime travelers to grab a quick meal. The restaurant stated that they do not need to use coupons or discounts to bring in new customers because they generate enough revenue on their own, as opposed to other restaurants, such as Denny's (Frequently Asked Questions, n.d.). However, they do have an app that allows for online orders to be placed and options for specific times/dates for them to be shipped. With the mobile app, Cracker Barrel can cater to consumers who are not interested in going out to eat but still desire the meals provided by Cracker Barrel.

Denny's has also stated their values as a business as well as to their customers. The title of "America's Diner" or internationally called "The Local Diner", has added value to the name of their restaurant. Nationally, there are almost 1,560 company restaurants and around 145 locations internationally. Not only does Denny's offer all-day breakfast items, but they also provide classic American-style meals for lunch and dinner. With the convenience of a restaurant being open 24/7, they can likely bring in more customers than restaurants with limited hours (Denny's corporation, 2021). People traveling overnight can find Denny's to be a perfect place to rest and eat before getting back on the road.

Unlike Cracker Barrel, Denny's needs to provide reward perks to increase customer loyalty and retention. Some of these discounts include emailing birthday gifts, AARP member discounts, and offering "kids eat free" with a purchase of an entrée (*Rewards & Promos: Denny's*, n.d.). They make the discounts and rewards accessible to guests by downloading their mobile app, which also includes online ordering and features faster delivery options (*Rewards & Promos: Denny's*, n.d.). Both Cracker Barrel and Denny's have valuable aspects about their restaurant and consider customers' time with their mobile apps.

Company Financials

Another key criterion to analyze how a company is performing is the financials that a company shares within its annual report. A key metric used to calculate a company's financial performance is the return on assets (ROA). ROA is calculated by multiplying a company's profit margin by its asset utilization. Calculating the ROA of a company can help to analyze how profitable a company is based on the rate of return of the company's assets. This ratio helps investors determine if investing in a company would be beneficial.

Denny's fiscal year ends on July 31st while Cracker Barrel's fiscal year ends on December 31st. Denny's last three annual reports are 2018, 2019, and 2020 and Cracker Barrel's last three annual reports are 2019, 2020, and 2021. 2020 was a difficult year for many companies with the unexpected pandemic playing a major part in altering each company's finances. Based on the analysis, Covid-19 was an important factor in both companies' financials within the last three years.

In 2018, pre-pandemic, Denny's ROA percentage was 13.02%, and following in 2019 their ROA ratio was 25.51% (Morningstar Investment Research Center Denny's, n.d.). Post pandemic in Denny's quarterly report their ROA percentage stayed negative at -2.98% in 2021 (*Denny's Quarterly Report,* n.d.). On the other hand, Cracker Barrel had a ROA percentage in 2019 and 2021 of 13.93% and 10.46%, respectively. This shows that the company was able to regain its footing within the industry after Covid-19 played a factory in their negative ROA in 2020 of -1.18%. Denny's also had a -1.18% ROA percentage due to being disrupted by the pandemic (Morningstar Investment Research Center, 2022).

Included in the appendix of this report is a graph that illustrates both companies' ROA percentages and how they compare to one another. One important factor to note was that Cracker Barrel was able to regain its ROA percentage back to a similar percentage before the pandemic. This demonstrates that the changes Cracker Barrel has made within their restaurants during Covid-19 have been supported by their financial statements. The table below illustrates the key financials of the two companies over their last three financially reported years as well as key ratios used to compare the two companies.

Denny's has yet to release their financial statements for 2021 separate from its quarterly finances released on September 29th, 2021. These quarterly finances demonstrate how Denny's has not been able to return to their financials from pre-pandemic and are still maintaining a negative ROA (*Denny's Quarterly Report,* n.d.). Based on the calculations of ROA made post-pandemic for Cracker Barrel, Cracker Barrel has weathered the storm of the pandemic and has gotten back on track to be financially stable in the future, whereas Denny's has not been able to make that change to continue with their finances prior to Covid.

	Company Financials						
	Million			Thousand	Billion		
	2018	2019	2020	Sep. 29th, 2021	2019	2020	2021
	Denny's				Cracker Barrel		
Total Assets	335.35	460.39	430.95	411,024.00	1.58	2.54	2.39
Equity	-133.35	-138.06	-130.45	-89,637.00	0.60	0.42	0.66
Net Income	43.69	117.41	-5.12	12,265.00	0.22	-0.03	0.25
Total Debt	317.09	425.55	379.76	500,661.00	0.40	1.62	1.13
Sales	630.18	541.39	288.61	46,470.00	3.07	2.52	2.82
Profit Margin (NI/S)	0.0693	0.2169	-0.0177	0.2639	0.0717	-0.0119	0.0887
Asset Utilization (S/TA)	1.8792	1.1759	0.6697	0.1131	1.9430	0.9921	1.1799
Leverage (D/A)	0.9455	0.9243	0.8824	1.2181	0.2532	0.6378	0.4728
ROA (PM*AU)	0.1302	0.2551	-0.0118	0.0298	0.1393	-0.0118	0.1046

Source: Morningstar, Sec.gov

Conclusion

In conclusion, Covid-19 had a major impact within the chain restaurant industry and caused many companies to struggle financially and socially beginning in the year 2020. Both Denny's and Cracker Barrel increased their sanitization to be able to open their restaurants back up for customers. Cracker Barrel had a cost increase due to food waste of 2% whereas Denny's had a cost increase of 5% due to their food waste during Covid. The new social trends follow the idea that healthier food is on the rise. Cracker Barrel has taken notice and provided a section on their menu named "Tasty Alternative" that offers healthier menu options. The companies have also started initiatives to promote diversity and inclusion within their places of employment. Cracker Barrel is conveniently located right off interstates to attract the customers who are on the road and need to stop and grab a bite to eat. This gives Cracker Barrel a leg up on their convenience of location when analyzing the two companies.

Within the financials is where the companies are truly separated and on different paths. The trend that a company is financially traveling in plays a crucial role in how a company is best strategically positioned for the future. Calculating the return on assets helps to determine how a company is performing financially. This is an important note for investors because a low return on assets would be a bigger risk in that they would receive their money back from investing and helps to demonstrate how the company is performing financially. Denny's was not able to return their ROA back to what they had prior to the pandemic. Whereas Cracker Barrel's calculated ROA returned near the ROA that Cracker Barrel had seen prior to the pandemic. The financial numbers of Cracker Barrel demonstrate a good bounce back from Cracker Barrel's covid disruption year in 2020. After an analysis of the industry, Denny's, and Cracker Barrel, the financial stability of Cracker Barrel following Covid and the other six criteria mentioned above, shows that they are the best strategically positioned for the future of the chain restaurant industry.

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Appendix

ROA Company Comparison