

There isn't a cutting edge in the entire place, and therein lies the strength of Cracker Barrel Old Country Store. Its folksy demeanor and down-home cooking is a refuge for those who seek comfort in a tumultuous world. Welcome, ladies and gentlemen, to America's most comfortable restaurant and this year's winner of RESTAURANT HOSPITALITY'S Chain of the Year. *By Polly LaHue*

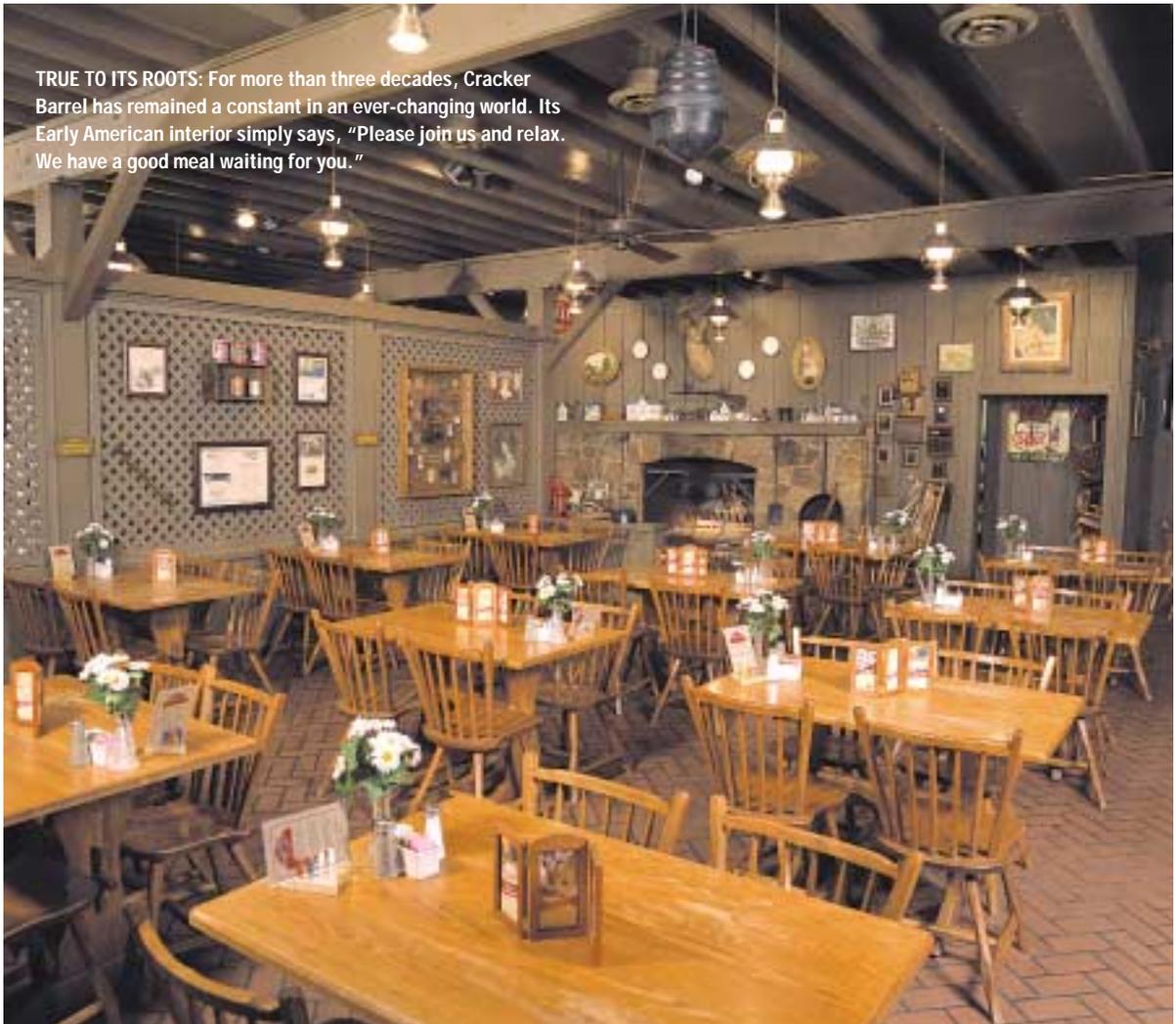
Cracker Jack Cracker Barrel

There's been a lot written in recent years about comfort food. During tough times, pundits say, people yearn for the foods that have always made them feel good. But long before 9/11, "Operation Iraqi Freedom," and this most recent and grueling downturn in the economy, few restaurant companies have offered food and an experience more comfortable than Cracker Barrel.

Perhaps that's why this Lebanon, Tenn.-based company has thrived for three decades and, during these tough times, has collected a barrel full of awards. A strong senior management team armed with four seemingly simplistic, but powerful

COZY COMFORT: Cracker Barrel has long represented a place of refuge, a place where one could get a meal like Mom used to make.





TRUE TO ITS ROOTS: For more than three decades, Cracker Barrel has remained a constant in an ever-changing world. Its Early American interior simply says, "Please join us and relax. We have a good meal waiting for you."

Best Practices points, have shaped this 34-year-old chain into an award-winning giant. Cracker Barrel received the *Good Sam Club's Welcome Mat Award* in 2002 and 2003, was ranked for the tenth consecutive year as the *Best Restaurant Chain for Groups* from *Destinations* magazine, and, this year, took honors as

RESTAURANT HOSPITALITY'S Chain of the Year.

For an enterprise more than three decades in the making, Cracker Barrel has remained surprisingly true to its roots. In 1969, Dan Evins, a Shell Oil "jobber" for the Tennessee/Georgia territory, wanted to of-



TOP DOG: Cracker Barrel represents old-fashioned values, but under Mike Woodhouse's leadership, the concept is progressive and forward-thinking.

fer travelers a place to stop for a good meal at a fair price, quality gift items and gasoline. When he learned that a strip of land off Interstate 40 near Lebanon was available, he saw the perfect opportunity to build a combination retail store and restaurant with a gas station. He envisioned the restaurant much as it is today: filled with unique and authentic rural artifacts.

In that first store, as in the 482 operated today by parent company CBRL Group, Inc., guests found slow-cooked country favorites made with pure and simple ingredients from old-fashioned, homestyle recipes. Chicken n' Dumplins, Meatloaf and Roast Beef are staples on the dinner menu today, complemented by a long list of vegetables and side dishes.

All that home cooking has helped build a loyal following, especially with travelers, to the tune of 180 million meals yearly. With restaurants along interstates in 41 states, Cracker Barrel has been able to take that brand awareness and move it out into core markets,

continued on page 54

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away from interstate travel, as they expand.

“Part of the personality of Cracker Barrel is very humble, very understated,” explains **Mike Woodhouse**, president and CEO for CBRL Group. “We have built awareness by letting people find out about us, rather than going out and telling our story in a way that doesn’t fit with the brand.”

The guest experience is job one

WOODHOUSE SAYS THE COMPANY’S NUMBER ONE GOAL IS TO make certain that it is delivering the best possible guest experience every single time. “We try to differentiate between the things we can’t control—the economy, the war, the politicians—and what we can control, which is providing a great guest experience for everyone who walks through the door. That’s sustained our sales numbers through difficult times.”

The difficult times seem to have been in the company’s pre-Woodhouse days, before the restaurant industry veteran and CEO of CBRL and Cracker Barrel formed the executive team that today has performed self-evaluations on anything and everything that affects customer satisfaction and, ultimately, the bottom line.

Woodhouse, together with Cracker Barrel President



A ONE-TWO PUNCH: Cracker Barrel’s powerful executive team includes President and COO Don Turner (left) and CAO David Gilbert. They have helped improve the company’s bottom line.

“We looked at the stores that did these things best, learned from them, captured those things in training materials and rolled those back out into the system,” says Woodhouse. “Anyone in any of the stores will talk about Best Practices. It’s become a way of life.”

The team brings an interesting collection of experiences to the helm of CBRL Group, which also oper-

Cracker Barrel customers often trade up on the menu, and that speaks volumes about how it has positioned the brand. The average check is growing faster than price increases, which suggests a bright future.

and Chief Operating Officer **Don Turner**, and Chief Administrative Officer **David Gilbert**, developed “Best Practices.” These fundamentals for operations are focused on the guest experience in a way that affects the company’s bottom line. The points are guest experience, speed of turning tables, controlling food and labor costs, and staffing and retention.

ates 109 Logan’s Roadhouse restaurants in 17 states.

Restaurant analyst **Bob Derrington** of Morgan Keegan, a Memphis-based investment banking firm, says the management team assembled by Woodhouse is key to Cracker Barrel’s success. Woodhouse, he says, was smart for dissecting the company’s business at each of its brands (Old Country Store Restaurants, Old Country Store Retail, and Logan’s Roadhouse).

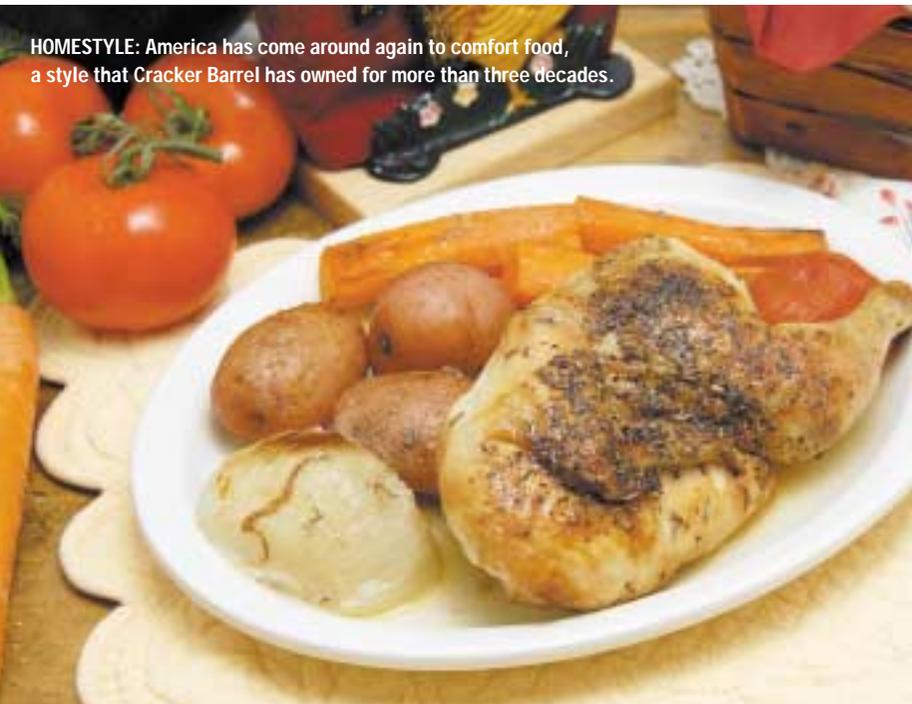
“Mike deserves credit for looking at how each brand could better connect with their key consumer and focus on better service standards, good food quality and, ultimately, sales growth,” he says. “They have just done a fantastic job, in my view, especially since this concept is more than 30 years old.”

Woodhouse says the executive team was assembled with a focus on organizational development, team leadership and continuity. “We’ve pushed that concept all the way down the organization,” he says.

“We’re striving for consistency throughout the chain,” concurs Turner, a Cracker Barrel veteran since 1974, who returned to the company in 1999 after several years on hiatus. He explains that general managers and district managers are continually brought into corporate training classes to help them understand what is expected from the product so that they

continued on page 56

HOMESTYLE: America has come around again to comfort food, a style that Cracker Barrel has owned for more than three decades.



know it is prepared properly.

At the same time, says Woodhouse, the concept has focused on finding different ways to deliver the same high quality at a lower cost. "We've done a lot of work in the purchasing area and we're doing work in other areas to take cost out without changing the customer experience at all."

With an average guest check of \$7.42 that translates into estimated net sales of \$1.8 billion for fiscal 2003, customer feedback is an important part of the Cracker Barrel puzzle.

"We do a lot of focus groups and get feedback directly from customers," Woodhouse says. "They're pretty vocal about what Cracker Barrel is and what it isn't. We're well known for comfort foods cooked from scratch," Woodhouse says.

"Whenever you have consumers come to a restaurant, and they actually trade up on the menu, I think it speaks volumes about how this company has positioned this brand," says Derrington. "It's not like they're driving traffic with low price point loss leaders. The fact is, check averages are growing faster than price increases. Consumers recognize the value, and it speaks volumes about the price potential that the brand still has that they've yet to take advantage of."

Competition for those dollars is everywhere. Though family restaurants would seem to be key competitors, Cracker Barrel has a strong crossover into the casual dining segment. Yet Turner says every restaurant is competition.

"We've heard from our guests that homestyle is very important," Woodhouse says. "Although we have a varied menu, they think of us as homestyle food. We're tops in mind in terms of travelers. But we're happy to take more guests from the other guys."

CHA CHING: Retail sales and profits are on the rise in CB's adjoining country store.



chases for guys.

"We're focusing on the price points to make sure they are in line with the check average," Woodhouse explains. "We're not trying to sell \$200 items in a \$7 per check restaurant. We're selling a lot more items at slightly lower prices. That's good for us and good for our guests." Though it's difficult to tabulate, Woodhouse estimates one in three restaurant guests also makes retail purchases, and the average purchase is about \$4.

Derrington says in the late '90s, prior to Woodhouse's appointment as CBRL Group CEO, the com-

Derrington predicts earnings per share growth of at least 15% through the next five years. For a company this old to drive the kind of earnings growth it has is nothing short of incredible.

They're happy to take retail dollars, as well. With a gift shop business that rakes in 23% of overall sales and 1,200 visitors who pass through each store daily, the task at hand is a bit more complicated than deciding what gum to stock near the register.

The retail side of the business

TURNER SAYS THIS PAST YEAR THE COMPANY IMPLEMENTED A PLANNING function that helps buyers decide which merchandise to purchase, how much to stock and when to stock it. The executive team had questioned the mix and timing for merchandise. That mix, which has slowly and methodically evolved over the last three years, has taken a turn toward more nostalgic merchandise, including such gifts as antique gardening items, old fashioned popcorn makers, and the company's signature hardwood rocking chairs.

In addition, a recently added line of gadgets and tools has been successful in targeting impulse pur-

pany forced too many aggressive price increases at a time when they were cutting service standards. Consumers not only paid more, they also got less. Woodhouse and his team not only reversed that and dropped prices, they brought in key retail people focused on tightening in-store operations, cutting costs, and getting the employees more focused on selling the products.

"Instead of trying to sell everyone a rocking chair for \$100, the sweet spot for them is in the range of \$4 to \$25, the best point being in that \$10 range," Derrington explains. "They've begun to slowly improve sales and improve profitability on that side of the business. I give this management team huge credit for not just raising prices or doing things without thinking about it and the repercussions of those moves."

"We've got to keep this business simple for all of us," Woodhouse says. "We tend to have a more complex

continued on page 58



SLOW DOWN: Cracker Barrel pays homage to the slower, country way of living by inviting guests to sit on its front porch and relax.

operation than a lot of other operations. The challenge for us is keeping it simple for the guests (while) dealing with quite a complex business behind the scenes.”

Part of the complexity lies in the expansion of the chain, which added 23 new stores this year and expects to add 20 to 25 new stores yearly for the next three to five years. The company has a new three-month check-up process to monitor new stores following their opening to see that they are on track. The process reviews hiring decisions, training effectiveness, sales figures and cost controls, as well as customer feedback.

“We’ve taken a rigorous approach over the last few years,” says Gilbert, who joined Cracker Barrel two years ago. “Because our new unit growth is relatively small for our overall size, we need to get every unit right. We’ve been very careful and thoughtful in that process.”

In fact, the company has been so successful, it has only had to close eight properties in its 34-year history,

incidents of racial discrimination.

On May, a U.S. District Court judge rejected the class action suit, saying the employees had failed to make their case. About 23% the company’s 50,000 plus employees are minorities, according to Turner. About 13% of those are African-Americans, and more than 7% of the company’s store managers are African-Americans, as are its top three executives who handle human resources, employee training and purchasing.

It was the second time in six months that a judge rejected a class-action suit against Cracker Barrel brought by the same attorneys.

Derrington thinks the company goes out of its way to treat both its employees and customers extremely well. “When you look at how the turnover in this company has continued to fall, I think it speaks volumes about how this company takes care of its employees and the customers it serves,” he says. “I think the frustrating thing about (the lawsuits) is that they have especially tried to maintain fair relations with their em-

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Derrington approves of the way CBRL is growing the chain. “This is not a company that needs to open 20% new stores every year to meet their earnings expectations,” he says. Based on their current expansion plan, projected store sales growth and margin expansion, Derrington predicts earnings per share growth of at least 15% through the next five years. “For a company this age to drive the kind of earnings growth it has, is nothing short of incredible,” he says.

That’s not to say the company hasn’t had its share of rough times. The most recent came just four years ago when attorneys representing a group of 13 African-American employees or former employees held a news conference to announce they were pursuing a class-action lawsuit against Cracker Barrel for alleged

employees. In this business, it’s hard enough to find good people. If you abuse your employees, they’re never going to take care of your guests.”

“The thing that impresses me most is that this is not a company that is resting on its laurels,” says Derrington. “They’ve had a nice little run for two or three years here, and they continue to look for ways to improve the business. They continue to evolve the menu, trying to stay consistent to their guest’s expectations. And they continue to evolve the retail side of the business.”

If history is an indicator, Americans will continue to flock to Cracker Barrel in good times and in bad, and the business world will take notice. Woodhouse just might want to clear some space off the Cracker Barrel mantle for a few more awards. **R**