STRATEGIC ANALYSIS
OF
Luby’s Inc.

Temiloluwa Vasco
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1.0. Executive Summary

Luby's Inc. is the largest cafeteria style restaurant chain in the United States of America. It's acquisitions of Fuddruckers and Cheeseburger in Paradise have diversified its portfolio of restaurants, however, the company faces challenges maintaining profitability. Hence it is necessary that the company continue to evaluate its strengths and weaknesses to surmount the threats and take advantage of opportunities in its market.

This study identifies the critical issues challenging the firm by conducting a thorough analysis of its external environment, industry, internal environment and market and financial performance. Key information obtained in this study are the driving forces from the external environment, industry key success factors, current strategy and its performance, organizational resources and capabilities. An assessment of the company's competencies against the driving forces and key success factors provide a basis for identifying those challenges that impact the company's ability to survive.

In conclusion, the study in the external environment and internal situation. The challenges will be matched with internal resources and capabilities to identify SWOT and the two most critical challenging issues that call for immediate action.

Finally, using the dynamic SWOT process, the study presents the strengths, weaknesses, opportunities and threats which will enable the company to adapt its strategy to face the upcoming challenges. The results of this study provide a clear insight of the company's capabilities and a starting point for discussion on how Luby's can address specific issues become successful again.

2.0. Company History

Luby's, Inc. ("Luby's") is a multi-branded company operating in the restaurant and contract food services industry. Its primary brands include Luby's Cafeteria, Fuddruckers, Luby's Culinary Contract Services, and Cheeseburger in Paradise. Our lesser known brands include are Bob Luby's Seafood, Luby's, Etc. and Koo Koo Roo Chicken Bistro. Luby's Culinary Contract Services ("CCS") provides food service management to healthcare, educational and corporate dining facilities. (Luby's, Inc., 2014)

Headquartered in Houston, Texas, Luby's operates 174 restaurants located throughout the United States, 25 culinary contract service locations, and has 51 Fuddruckers franchisees operating 110 restaurants. Restaurants are generally located in close proximity to retail centers, business developments and residential areas and 92 of it 174 establishments are located on owned property, while the rest are located on property that is leased. Five locations consist of a side-by-side Luby's Cafeteria and Fuddruckers restaurant, which are referred to as "Combo locations". (Luby's Inc., 2014)

2.1. Background

Luby's roots run through America's political, social, and economic history, beginning with the first unit and extending through every successive decade of the 20th century. Although Luby's was incorporated in 1959, the company's history was planted in 1909 when clothes merchant Harry Luby made a business trip from his home in Springfield, Missouri, to Chicago, Illinois, where he was captivated by a new type of restaurant where patrons picked the food items they wanted from a counter and carried their own trays to dining tables. Two years later, Luby opened a similar operation in Springfield, Missouri, called the New England Dairy Lunch Cafeteria. From a 12-foot counter he built himself, Luby dished out freshly prepared food at reasonable prices. By 1927, the 39-year-old Harry Luby had made enough money to retire in San Antonio where he oversaw his investments in seven cafeterias in Texas and one in Kansas. (Advameg, Inc., n. d.)

Harry's son, Robert (Bob) M. Luby, who grew up in the restaurant business, was determined to enhance his father’s principles and work ethic with his own new ideas and passion for serving top quality food in a welcoming atmosphere. In 1947, Bob returned to Texas from his World War II service as an intelligence officer stationed in California, and joined forces with his cousin Charles R. Johnston, to open the first Luby's Cafeteria in San Antonio. They continued to open new restaurants over the next 11 years, facing an interesting challenge in the accessibility of well-trained managers capable of maintaining Luby's uncompromisingly high-quality standards. (Luby’s Inc., n.d.)

In 1959, with nine cafeterias in various locations, the San Antonio-based company incorporated under the name Cafeterias, Inc. It became a publicly held corporation in 1973, then changed its name to 1981 to Luby's Cafeterias, Inc. and joined the New York Stock Exchange the following year. (Luby’s Inc., n.d.)

Luby’s, Inc. was reincorporated in Delaware on December 31, 1991 and restructured into a holding company on February 1, 1997, at which time all of the operating assets were transferred to Luby’s Restaurants Limited Partnership (LRLP), a Texas limited partnership composed of two wholly owned, indirect subsidiaries. (Luby’s Inc., 2014)

In 2001, two of America's most successful restaurateurs, Chris and Harris Pappas of Houston, joined the Luby's leadership team, continuing the company's commitment to high standard of excellence. The Pappas brothers each brought 30 years of restaurant experience to the organization, which included Harris' own experience working for Luby's as a young man in the early 1970s. (Luby’s Inc., n.d.)

LRLP was converted into Luby’s Fuddruckers Restaurants, LLC, a Texas limited liability company (“LFR”) on July 9, 2010. All restaurant operations are conducted under LFR, and LFR completed the acquisition Fuddruckers seventeen day later, becoming the owner and operator of 56 Fuddruckers locations and three Koo Koo Roo Chicken Bistro locations, and franchisor to an additional 130 Fuddruckers locations. Over two years later, LFR then acquired Cheeseburger in Paradise on December 6, 2012, and became the owner of 23 full service Cheeseburger in Paradise restaurants located in 14 states.

2.2. Purpose of this study

The purpose of this study is to identify the challenges facing Luby’s in light of its current strategy, by scanning its internal and external environment to determine the driving forces capable of shifting demand (and supply) for Luby’s restaurants and to identify the key success factors for establishments in the industry. The company resources and capabilities, which together provide a basis for Luby’s competencies, derived from the internal analysis performed will be assessed against the external environment driving forces and industry key success factors to understand whether the company is able to meet its challenges successfully. The company’s current market and financial performance will also be reviewed as a means of measuring the success or disappointment of its current strategy. In conclusion, a dynamic SWOT analysis will be conducted to determine the critical challenges facing the company in order to generate recommendations that will position the company to overcome these challenges.

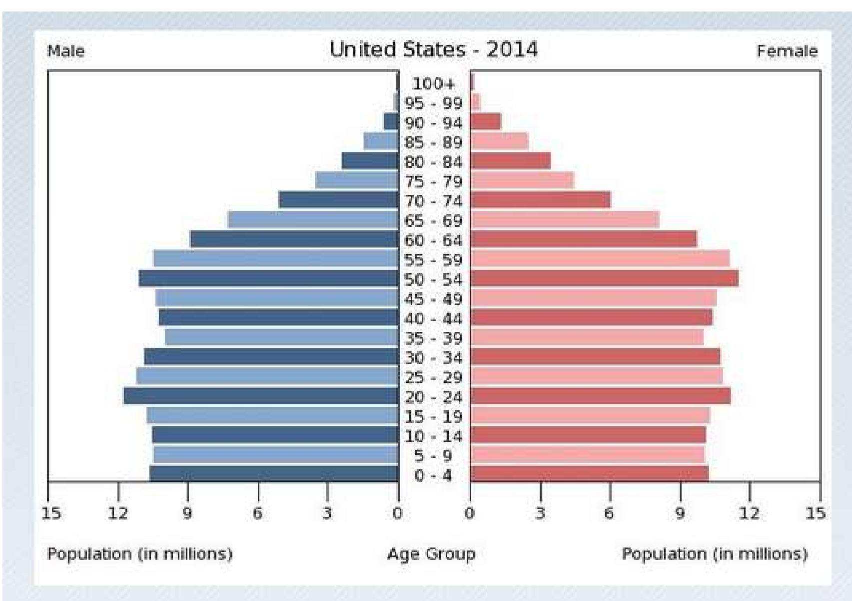
3.0. External Analysis

3.1. General Environmental Analysis

3.1.1. Demographic Segment

As of February 6, 2015, the United States population estimates 320 million people, and is the third most populous country in the world, second only to China and India (U.S. Census Bureau, 2015). Population growth, the slowest since The Great Depression, approximates 0.71% (2.3 million) for the twelve-month period ending July 2013, (Toppo & Overberg, 2014), and is expected to remain stagnant in the future. Minorities account for a significant portion of the population growth, with 50.4% of American children under the age of 1 belonging to minority groups (Morello & Mellnik, 2012).

The population's sex is roughly even at 51% females and 49% males, with the additional 2% in females totaling 4.8 million. Roughly 12% of both sexes are under 18 years old, 18% aged between 18 to 44 years old, 13% between 45 to 64 years and 6% over 65 years old. 85 years and older account for only 1% of the population. (U.S. Census Bureau, 2014). See the Central Intelligence Agency (2014) Population pyramid below for more detail.



The country's median age is 38 years as of 2013 and the proportion of the population 65 years and over is still increasing due to ageing baby boomers reaching 65. This trend will continue for many years (MarketLine, 2014).

As of July 2013, The U.S. population is predominantly white (62.4%), followed by Hispanics or Latinos (17.1%), Black or African-Americans (12.3%) Asians (5%), American Native races (0.9%), which include American Indian, Alaskan Natives, Native Hawaiian and Other Pacific Islanders, and other races (2.3%). (Census Bureau, ACS_13)

The United States is also quite urbanized, with 81% of the population residing in cities and suburbs as of 2014. California and Texas are the most populous states at present and New York City is the most populous city in the United States. The prevailing language remains English (82.1% of the population, although Spanish speaking Americans increased to 10.7% as of 2000. Other languages include Other Indo-European (3.8%), Asian and Pacific Island (2.7%) and other (0.7%) (Central Intelligence Agency, 2014).

There are six living generations with fairly distinctive mind sets, which can be generalized into likes, dislikes and attributes for marketing purposes. The oldest born before 1927 (88 years and older) are often referred to as "The Greatest Generation" and number less than 6 million (approximately **4%** of the population (U.S. Census Bureau, 2014). They have a strong sense of personal civic duty, are loyal to jobs, groups, and schools, have a strong belief in ethical living, hard work and avoidance of debt. They spend money only when they perceive value in the product. (Novak, 2014)

Mature/Silents, born between 1927 and 1945 (aged 70 to 87 years), number a little over 24 million, approximately **8%** of the population (U.S. Census Bureau, 2014) and have a strong sense of trans-generational common values, and are described as disciplined, self-sacrificing and cautious. Interestingly, they are the richest, most free-spending retirees in history. (Novak, 2014). They think in terms of loyalty to brands versus generics and stick to those they prefer.

Baby Boomers are born between 1946 and 1964 (aged 51 to 60 years), and are considered the "me" generation, who are used to using credit for instant gratification and see retirement as an active lifestyle, which increases their longevity. They number in excess of 44 million, approximately **14%** of the population (U.S. Census Bureau, 2014) and ignore brands when determining value. Boomers generally prefer "classic" comfort foods, but many also enjoy gourmet choices (Millennial Marketing, 2009). They are most likely to prefer dine-in over take-out or delivery and have the most preference for local foods and ingredients.

Generation X, born between 1965 and 1980 (aged 35 to 50 years), are very individualistic, and tech-savvy though they remember a world without computers. They number in excess of 62 million, approximately **20%** of the population (U.S. Census Bureau, 2014). Although they are also into labels and brand names (Novak, 2014), they use information to guide their decisions and brands as initial guides, but comparison shop exhaustively. This generation spends the most for groceries, cooks at home more often, but also like fresh, ready-to-eat-options. For them convenient locations are key (Millennial Marketing, 2009).

Generation Y (Millennials), born between 1981 and 2000 (aged 31 to 15 years), number over 66 million, approximately **21%** of the population (U.S. Census Bureau, 2014). They prefer digital literacy and get all their information and most of their socialization from the internet. This generation envisions the world as a 24/7 pace, and want fast and immediate processing. (Novak, 2014). They also have a passion for trying new food and are adventurous in their eating habits as their world is now globalized (Lempert, 2014). Hence they eat at multiple venues rather than frequenting the same place. They prefer less expensive, convenient foods, but are willing to pay more for fresh healthy food (Sass, 2012). They prefer to visit restaurants that offer new and unique foods and flavors (technomic, 2014). They are also less inclined than Gen X to associate specific brands with comfort foods and prefer to dine-in as opposed to take-out or delivery (Millennial Marketing, 2009).

Generation Z, also referred to as Boomlets, are born after 2001 (aged 1 to 15 years) and have a large Hispanic demographic. They number in excess of 61 million, approximately **19%** of the population (U.S. Census Bureau, 2014), have become inured to the environmental movement and over-saturated with brands. Exposed to more flavors and variety at a young age, their collective attitude toward food is simplicity and health, with a desire for fresh ingredients and cooked meals (Lempert, 2014). They strongly prioritize speed of service, technology, and having what they want, when they want it (technomic, 2014). They are most likely to get take out (as opposed to take out or delivery). (Novak, 2014).

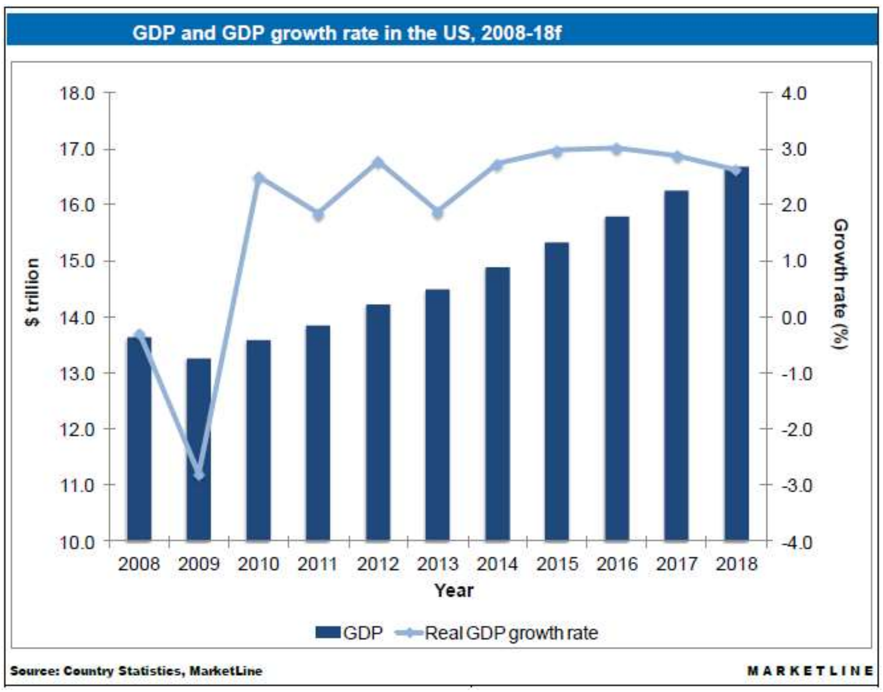
3.1.2. Economic Segment

Economic Situation

Certain economic factors that can influence personal consumption, which dictates how much people spend on casual dining. Determinants of personal consumption, include the state of the economy, consumer confidence, disposable income, and financial and physical wealth. Disposable income is in turn impacted by interest rates (return on savings) and taxes.

Despite the market bottom from the 2008 mortgage financial crisis and several ethical failures on the part of large conglomerates (e.g. Enron, WorldCom), the economy has seen impressive productivity (GDP) growth in recent years. The growth, increasingly driven by tax cuts and low interest rates, has been accompanied by increasing twin deficits in the fiscal and current account. While these deficits may eventually be reversed through tax increases and weakening in the US dollar, the risk remains that an abruptly falling dollar may raise interest rates and throw the economy into another recession.

Within the year, real GDP is estimated to increase due to additional consumer and business-services spending. Stronger consumer spending is a result of lower gasoline prices and better economic conditions. Increase in population in the short run and increased business spending is expected to lower the unemployment rate, while no change is expected to be made by the Fed on short term and long term interest rates. See the chart below for actual and forecasted Real GDP growth rate through 2018.



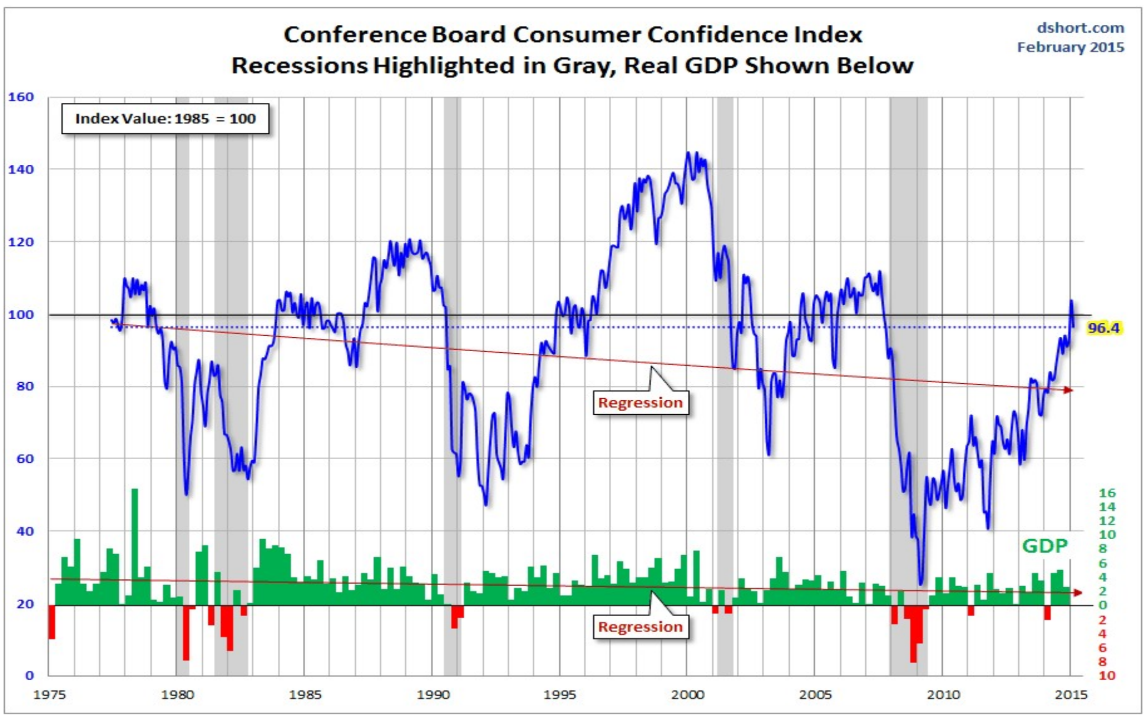
In the Medium and long term, real GDP is expected to increase, although it will be hampered by slowing labor force growth as baby boomers begin to retire. Real consumer spending is also expected to increase despite the expected rise in interest rates and unemployment should improve due to business spending expansion and the aforementioned retirement of the baby boomer demographic from the job market. Below are the long term expectations for GDP.

Key Macro-Economic Indicators

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Real GDP (% change)	1.6	2.3	2.2	2.4	3.1	2.7	2.7	2.4	2.8
Nominal GDP (US$ bil.)	15,517.9	16,163.2	16,768.0	17,441.3	18,301.4	19,149.2	20,037.1	20,927.4	21,955.0
Nominal GDP Per Capita (US$)	49,687	51,389	52,939	54,667	56,897	59,051	61,292	63,504	66,096
Consumer Price Index (% change)	3.1	2.1	1.5	1.6	0.1	2.3	2.4	2.5	2.4
Policy Interest Rate (%)	0.12	0.12	0.12	0.12	0.86	2.36	3.75	3.75	3.75
Fiscal Balance (% of GDP)	-9.4	-8.0	-4.7	-4.1	-3.6	-2.9	-2.9	-3.2	-3.1
Population (mil.)	312.32	314.52	316.75	319.04	321.66	324.28	326.91	329.54	332.17
Unemployment Rate (%)	8.9	8.1	7.4	6.2	5.5	5.3	5.2	5.3	5.3

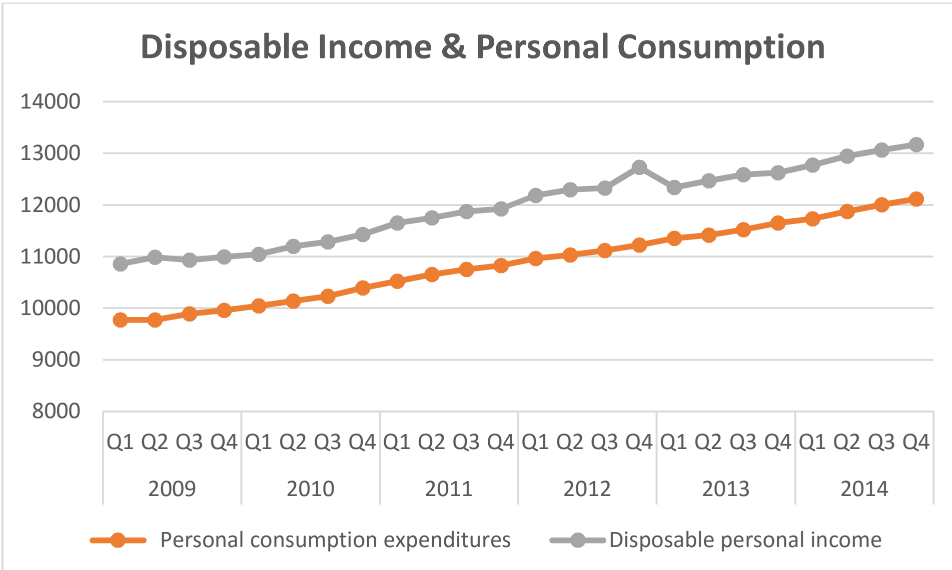
Source: Historical data from selected national and international data sources. All forecasts provided by IHS Global Insight. Table updated on the 15th of each month from monthly forecast update bank (GIIF). Written analysis may include references to data made available after the release of the GIIF bank.

Per Conference Board, Inc., Consumer Confidence in on the rise since 2010 along with GDP productivity. With confidence on the rise, personal consumption is sure to follow:

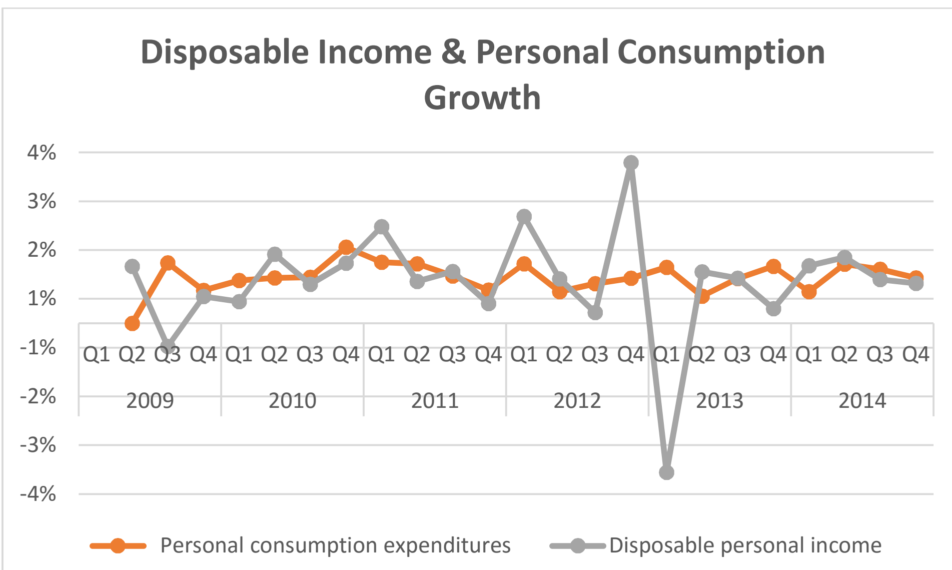


(Advisor Perspectives, Inc., 2015)

Personal Consumption is a significant component of GDP, accounting for 68% of the U.S. economy (U.S. Bureau of Economic Analysis, 2015). Both personal consumption and disposable income, a primary driver, have been rising since 2009. In 2014 results, disposable income grew by 4.24%, an improvement from 2013 where it declined by -0.78%. The expectation is that disposable income will continue to increase, resulting in higher Personal Consumption consistent with the expected increase in GDP. See Disposable income levels and growth rates for the past 5 years below:



(U.S. Bureau of Economic Analysis, 2015)



(U.S. Bureau of Economic Analysis, 2015)

The United States has the highest tax structure for businesses, but its inefficient taxation system with respect to equity is widening income disparities as high-income earners often pay a lower effective tax rate than middle class earners due to tax breaks for certain kinds of consumption, e.g. buying/owning a house, corporations in extractive industries. Repealing these allowances would result in an additional $34 billion in government revenues during 2014 through 2023, and lower disposable income for most households. (MarketLine, 2014)

Finally, the commodity market has significant influence on many food and beverage products, which are subject to price volatility from production problems, shortages, weather or other uncontrollable factors. The Commodity Food Price Index, which includes Cereal, Vegetable Oils, Meat, Seafood, Sugar, Bananas, and Oranges Price Indices is in a declining trend, which would be advantageous to the restaurant industry.

(Indexmundi.com, 2015)

3.1.3. Political/Legal Segment

Faced with a republican majority in the Senate and House of Representatives, President Barack Obama has indicated a willingness to use executive power to get priority bills passed as needed. During his term, by executive order, Obama has expanded healthcare coverage for Americans, ordered a 30% cut in Greenhouse emissions from power plants, raised hourly wage for federal contract workers to $10.10, and extended federal rights for same-sex couples.

The Jumpstart Our Business Startups ("JOBS") Act, passed on April 5, 2012, will encourage funding of United States small businesses by easing various securities regulations and effectively legitimized crowdfunding for the startup community, while prohibiting it for investment funds.

Restaurants are also subject to various regulations, the most pressing of which are: Food Safety, Franchises & Business Opportunities, American with Disabilities Act, Child and Teen Labor, Immigration, regulations regarding Minimum Wage, Tips, and Overtime, State and Federal Taxes, and Nutritional Labeling. These regulations do not change significantly from year to year and other than Obama's proposal to extend the aforementioned minimum wage increase to the whole country, there are no recent disruptive changes that might impact the food industry.

3.1.4. Socio-Cultural Segment

The U.S. populace is highly educated and enjoys a high standard of living. Approximately 42% of the adult population between ages 25-64 attain tertiary education and 95% of tertiary school-age population enrolled as of 2012 (United Nations Development Programme, 2014). Despite the high standard of living, the disparity between the rich, middle-class and poor grows wider due to slower economic growth, rising taxes, labor shortages and increasing social security costs due to the rapidly ageing baby boomer generation (MarketLine, 2014).

Currently, the U.S. faces challenges regarding increasing income inequality, expensive healthcare and an ageing population, tempered by prospects from expanding healthcare coverage and continued focus on reducing unemployment through congressional Acts like the July 2014 Workforce Innovation and Opportunity Act (WIAO), which seeks to improve workforce development by guaranteeing realistic access to training providers and supports successful transitions to tertiary education, industry training and adult employment. (MarketLine, 2014)

There is a huge shift in societal preferences to focus on preserving the environment and eating healthier foods. With popular doctor shows like Doctor Oz and Health News segments, many now view food as a form of medication for the body to perform at optimal levels and improve longevity. As such, society spending on healthy foods, herbal supplements, recycling and the healthcare industry is on the rise.

3.1.5. Technological Segment

The United States is the world leader in science, technology and innovation (STI), leading in scientific publications numbered in excess of 4 million between 2003 and 2011. The next highest producer (China) only published half that number. Its leadership status is also indicated in the percentage of produced works (16.8%) used as citations in top-rated publications. (MarketLine, 2014)

"The U.S. has a well-established intellectual property rights (IPS) protection and enforcement system, which encourages commercialization of technology with ease" (MarketLine, 2014, p. 15). The United States originates for 48% of patents granted by the U.S. Patent and Trademark Office (USPTO) and 29% of worldwide triadic patents simultaneously granted at the European Patent Office, The Japan Patent Office and the USPTO. As a result, it is home to companies that depend heavily on IP protection to cover costs and generate profits. (MarketLine, 2014, p. 35).

Americans are often fascinated by new technology and gadgets. Many of the new technological innovations in the modern world were either first invented in the United States and/or first widely adopted by Americans, e.g. nuclear power, personal computers, video games, online shopping, as well as the development of the Internet. (Technology, gadgets, and automobiles, n.d.)

With ever cheaper telecom devices and their related communication networks, cell phone and other mobile devices have increased connectivity for all Americans. Generation X and younger expect their interaction (browsing, shopping, making inquiries, placing orders, etc.) with retail and other brands to take place virtually, via phone or computer. Due to the reliable network system, the ingrained expectation for technology to work on demand has been transferred to everyday life. The expectation that their demands be immediately met can be daunting for service companies and their staff.

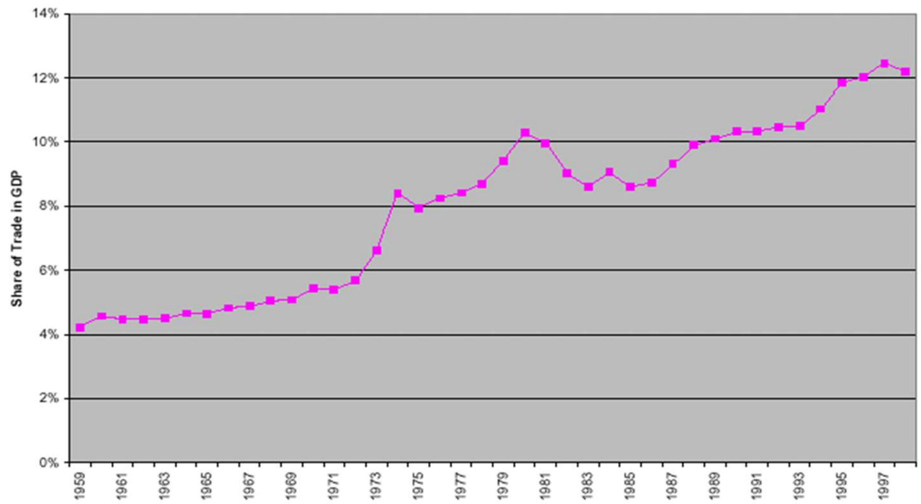
3.1.6. Global Segment

Globalization, driven by “expansion of world trade, communication, immigration, capital flows and multinational business activity…is…a key driver of the U.S. economy.” (Lerman & Schmidt, 1999). For any company intending to do business, the national boundaries of the US no longer exist. With the advent of telecom and the internet, business is now run globally, no matter the organization’s scale.

The U.S. maintains friendly relations with the United Kingdom, European Union, Canada, Mexico and a host of South American countries. It is currently negotiating a large-scale free trade agreement, called the Trans Pacific Partnership (TPP) with eleven other nations (Brunei, Chile, New Zealand, Singapore, Japan, Australia, Canada, Malaysia, Mexico, Peru and Vietnam), to address tariff and non-tariff barriers, promote trade and make provisions for intellectual property laws. The U.S. is also in talks with the EU over a free trade agreement, the Transatlantic Trade and Investment Partnership (TTIP), which both the sides aim to finalize by the end of 2014. (MarketLine, 2014)

A symptom of globalization is the increased demand for imported goods. Foreign trade (exports and imports) have been and continue to rise (see chart below).

Average of Exports Plus Imports as Share of Gross Domestic Product: 1959-98



Source: Bureau of Economic Analysis, US Department of Commerce

(Lerman & Schmidt, 1999)

For the restaurant industry, which is often focused on its locality, globalization brings increased options in regards to ingredients, suppliers and dining choices This in turn increases competition, risk from variation in ingredient processing and food prep norms, better marketing potential to reach a wider customer base and investors, and serves a means of differentiation by sourcing locally. Just as important is the need for constant training and vigilance over a fluid workforce that remains ever changing, as well as continuous monitoring of customer tastes which can change with fluidity in transportation and demographics. (Berman, n.d.)

3.1.7. Summary of General Environmental Analysis

From the General Environment analysis, we see specific trends that may affect the restaurant industry's performance. Demographics provide a picture of steady population growth, with a growing Hispanic segment, that now outpaces blacks. We also have an ageing baby boomer generation, with the following generation's general preferences for healthy foods, instant gratification and technology. Despite increasing disparity in wealth in the U.S., society is willing to pay for perceived value in healthy foods and life enhancing supplements, drugs and procedures.

The growing economy, now somewhat recovered from the 2008 recession have resulted in higher disposable income. Coupled with consumer confidence in the economy, stable inflation and low interest rates, personal consumption is on the rise. Decreasing food commodity prices and low expected unemployment have also increased supply for the restaurant industry, although this may be tempered by the higher cost of labor should the minimum wage increase proposal be passed by congress.

Technology is also a large factor for Americans, who are awash with gadgets and mobile devices. Generation X, Y and Z are tech savvy and their constant use of technology, including computers, phones and tablets, when interacting with businesses is unprecedented.

On a global scale, the United States does business with virtually every country in the world (excluding some for ethical violations). With few barriers to trade and two trade agreements in the works, the impact will increase fluidity in the labor force and provide a wider array of foods/ingredients. More diversity in U.S. residents will result in higher demand for ethnic foods as well as traditional fare, although which will outstrip the other is yet to be seen. The intensity of competition for these new residents' patronage will increase as businesses seek to expand their market share and profitability, while marketing will have to be executed with a diverse audience in mind.

3.1.8. Driving Forces

Driving forces, also called Change Drivers, are factors in the macro environment that trigger a change in organizational strategy for a focal industry. They may be disruptive and revolutionary in nature, requiring complete strategy restructuring or reengineering, or on-going and evolutionary in nature, requiring only slight adjustments in strategy. A comprehensive understanding of the relevant driving forces is necessary for organizational survival and success as it points leaders towards critical issues that must be immediately addressed.

The driving forces applicable to our analysis are evolutionary in nature and are as follows: changes in demographics/consumer tastes, commodity markets and the U.S. economy. It should be noted that significant and swift changes in the U.S. economy may be disruptive, however, with the prevalence of economic analysis and an active FED working to mitigate adverse market fluctuations, very few market changes are unforeseen or truly sudden. The three factors discussed significant in shifting the demand and supply for goods and services in the U.S. restaurant industry.

- *Changing demographics and consumer tastes*

An ageing population and increase in minority segments have resulted in alterations in societal concerns, attitudes and lifestyle. Specifically, the ageing baby boomer generation, which have a significant impact on the market, have focused on healthy lifestyles and environmental sustainability, in their bid to maintain their youth and vitality and leave a worthy legacy for successive generations. In tandem with the growing issue of both childhood and adult obesity and accurate, simplified food labeling resulting from the 1997 Food & Drug Administration (FDA) Modernization Act, disclosure and discussions of caloric content and other nutritional facts in food products is now common. As such, consumer preferences for healthier foods, organically grown (without environmentally harmful pesticides) and sourced locally is prevalent.

- *Volatile Commodity markets*

Commodity markets determine the wholesale prices of goods such as beef, seafood, and poultry, which can change more than 10 percent in a single year. Wholesale prices for other ingredients, including eggs, dairy products, and fresh produce, can also increase due to shortages or high demand. Hence, the performance of the agricultural industry and fuel prices significantly affect the commodity market and supplier networks in the U.S. market. Fluctuating costs associated with food prices and transportation may adversely impact margins and profitability in the Restaurant Industry, as establishments may not be able to pass price increases on to the customer because of price sensitivity. (Hoover's Online. 2015)

- *U.S. Disposable Income*

Indicators of a strong economy include high consumer spending and low unemployment. Consumer spending increases in times of economic growth generally due to increase in available credit and consumers' positive outlook on the future. Consumer spending also rises when more of the populace are earning an income. The US economy has generated jobs at a pace of a quarter million per month over the past year, and the unemployment rate (5.6%) is the lowest since the 2008 recession. Should the minimum wage increase as proposed by President Obama, the higher wage base would raise the standard of living for low skilled workers in the country, and therefore, their disposable income. However, the increase in base wages would also lead to higher labor costs for the restaurant industry.

3.2. Industry Analysis

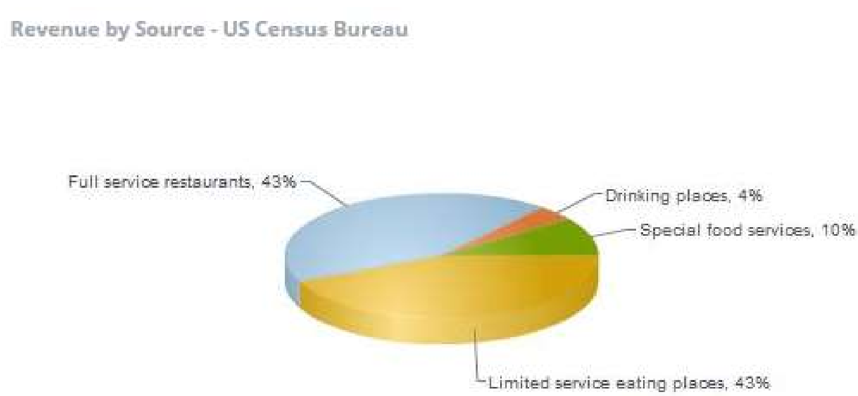
3.2.1. Description of the Industry

The U.S. Restaurant Industry (2012 NAICS 722511) comprises establishments primarily engaged in providing food services, sometimes in combination with alcoholic beverages, to patrons who order and are served while seated. The Cafeterias, grill buffets and buffets segment (2012 NAICS 722514) of the industry is primarily engaged in preparing and serving meals for immediate consumption, using cafeteria-style or buffet serving equipment, such as steam tables, refrigerated areas, display grills, and self-service nonalcoholic beverage dispensing equipment. Patrons select from food and drink items on display in a continuous cafeteria line or from buffet stations and pay before eating. These establishments may also provide carryout services or presenting live nontheatrical entertainment for their customers. (U.S. Census Bureau, 2012)

The casual dining sector is dominated by national chains although highly fragmented. Companies with multiple restaurant locations account for about 40 percent of the full-service dining industry. Major companies in the industry include operators such as Bloomin' Brands, Brinker International, and Darden Restaurants,

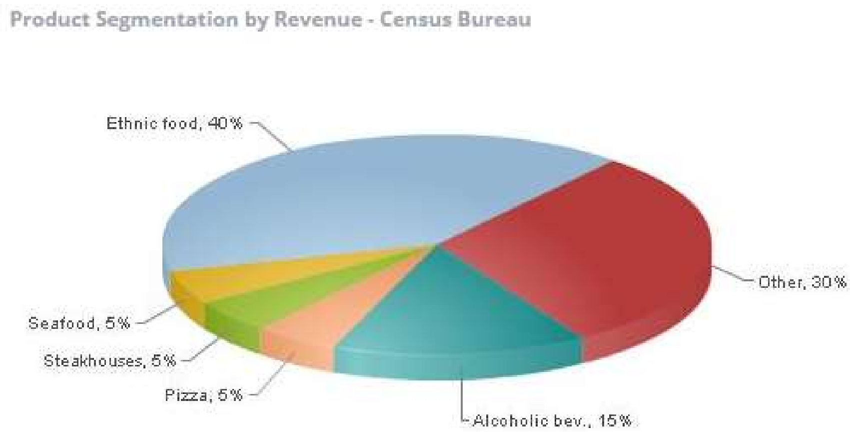
Contract Food Service organizations typically serves restaurants, hospitals, corporate campuses, government agencies, sports and entertainment arenas, prisons, primary and secondary schools, airlines, and universities. Major food service providers include companies like ARAMARK, Cintas Corporation, SODEXO, etc.

In regards to sales, 43% are made by full service restaurants and limited service eating places (like cafeterias), respectively, 10% by special food services, and 5% by drinking places.



(Hoover’s Online. 2015)

Industry revenue is earned primarily on ethnic food (40%), followed by alcoholic beverages (15%), then Seafood, Steakhouses and Pizza parlors (5% each).

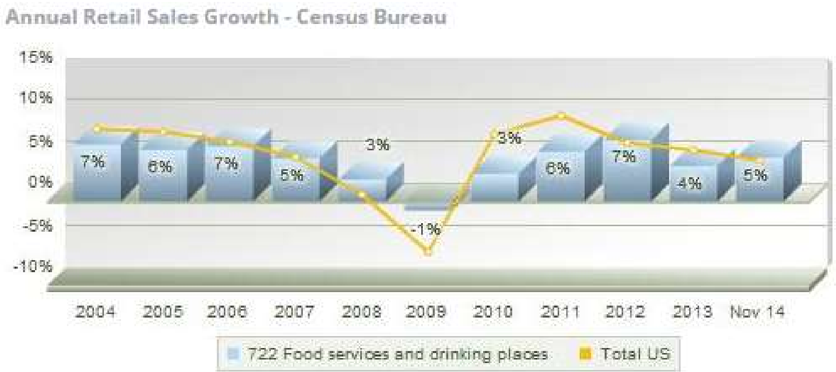


(Hoover's Online. 2015)

3.2.2. Industry Dominant Economic Features

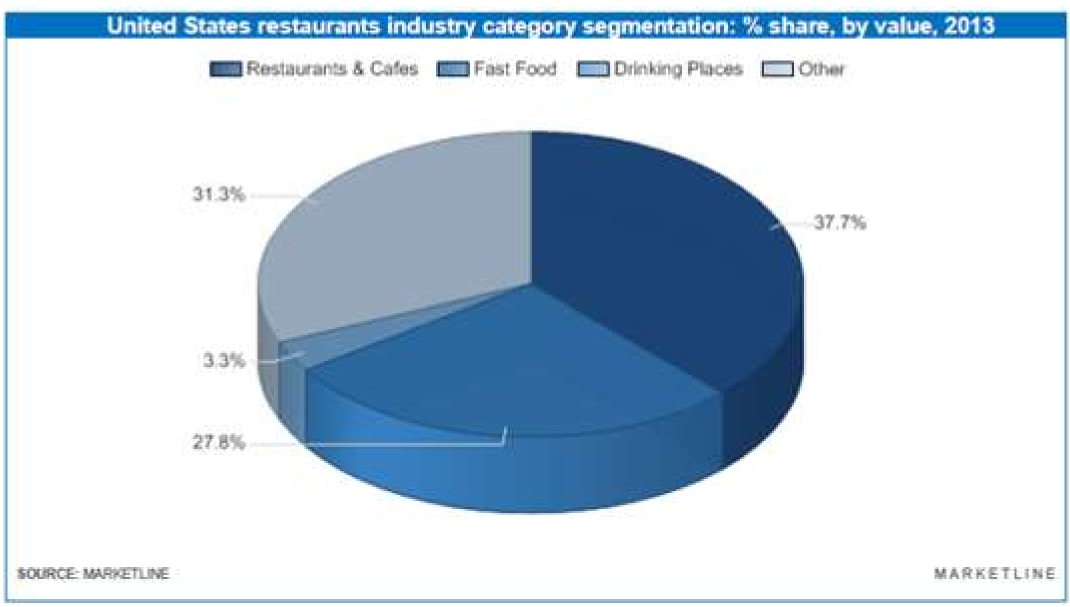
The Industry is dependent on personal income, consumer tastes and demographics. Profits depend on high margin items and effective marketing, while risks include volatile ingredient costs and food safety concerns. Key industry indicators are U.S. consumer spending on services, personal income and retail sales for food services and drinking places.

U.S. consumer spending on services, a measure of demand for casual restaurants, rose 2.1% from December 2013 to 2014, while U.S. personal income, the driver for consumer spending at casual restaurants, rose 4.6% by December 2014 compared to 2013 and U.S. retail sales for food services and drinking places, an indicator of casual restaurant sales, increased 13.1% by January 2015 from 2014 (see Hoover's (2015) chart below). (Hoover's Online. 2015)



The U.S. restaurants industry had total revenues of $660.5bn in 2013, representing a compound annual growth rate (CAGR) of 3.9% between 2009 and 2013 and industry performance is expected to accelerate at a CAGR of 5.6% between 2013 and 2018. As such, industry value should top $867.6bn by December 2018. (MarketLine, 2014)

The Restaurants and Cafes segment was the most lucrative in 2013, with total revenues of $248.9bn (37.7% of the industry's overall value), followed by the fast food segment with $183.4bn in revenues, equating to 27.8% of the industry's aggregate value (see chart below). (MarketLine, 2014)

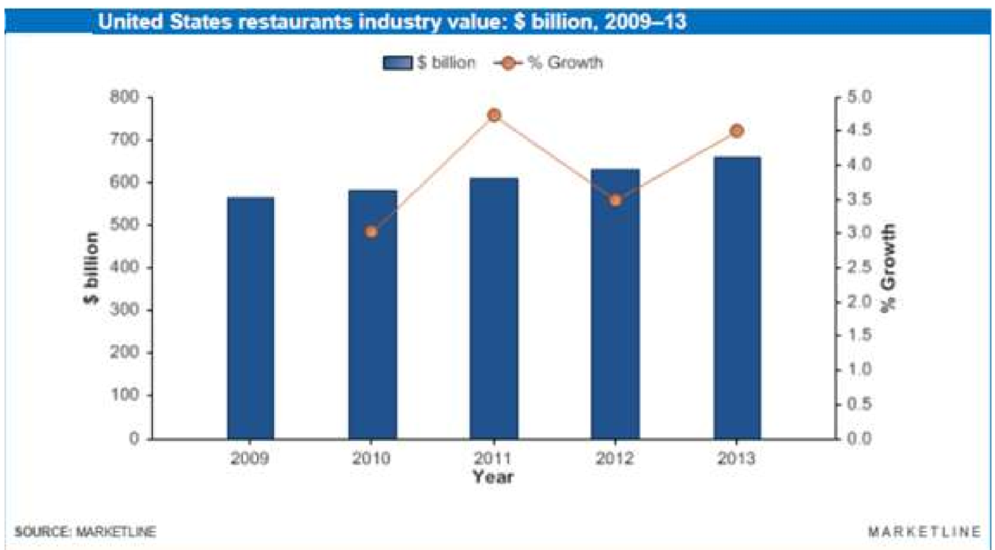


3.2.3. Market Size

According to Euromonitor, the U.S. is one of the world markets with the most full-service restaurant locations. The U.S. full-service restaurant industry, which includes casual restaurants, comprises more than 200,000 establishments with combined annual revenue of about $230 billion. It is also highly fragmented with the 50 largest companies accounting for approximately 20% of industry revenue. (Hoover's Online. 2015)

3.2.4. Market Growth Rate

The United States restaurants industry grew by 4.5% in 2013 to reach a value of $660.5 billion at a CAGR of 3.9% between 2009 to 2013. (MarketLine, 2014)



As of September 2014, the output of U.S. food services and drinking places is forecasted to grow at a medium pace, with a CAGR approximating 4% between 2014 and 2018 (Hoover's Online. 2015). The chart below provides expected annual growth rates

(Hoover's Online. 2015)

3.2.5. Industry Trend

Current trends include the popularity of Food Trucks, which are now the fastest-growing dining industry in the U.S., thanks to low overhead, quick service, and the flexibility to adapt to trends. They have been used as a relatively inexpensive way to test customer preferences before expansion to full service restaurants. Food truck revenue reached $650 million in 2012, and is expected to quadruple to $2.7 billion by 2017, according to Emergent Research. (Hoover's Online. 2015)

Healthier options are another trend in the restaurant business. More companies are capitalizing on the healthy food trend, driven by an increasing number of vegetarians, vegans, gluten-free dieters, and diabetics. Emerging restaurant chains such as Sweetgreen, Veggie Grill, and Tender Greens specialize in menus heavy on salads and grains. Existing chains are adding items such as veggie burgers, wraps, or dishes made with tofu. High-end restaurants are adding pricey gourmet vegetarian tasting menus to their offerings. (Hoover's Online. 2015)

The use of locally sourced ingredients is also increasing both as a means of restaurant differentiation, to improve food quality and appeal to consumer tastes. Using produce from local growers can ensure a fresher product and better-tasting meals. Buying from local suppliers also helps establishments appeal to customers concerned about sustainable agriculture and ecology issues. (Hoover's Online. 2015)

With competition from alternative food providers (e.g. supermarkets and convenience stores) and fast-casual outlets, casual restaurants now offer take-out, curbside or faster counter service options inside existing locations. These options are an attempt to overcome the ease of buying food at supermarkets and convenience stores, which are typically closer to home and part of consumers' regular schedule, as well as the convenience and quality of fast-casual establishments which offer faster, fresher, and healthier meal options during lunchtime rush hours. (Hoover's Online. 2015)

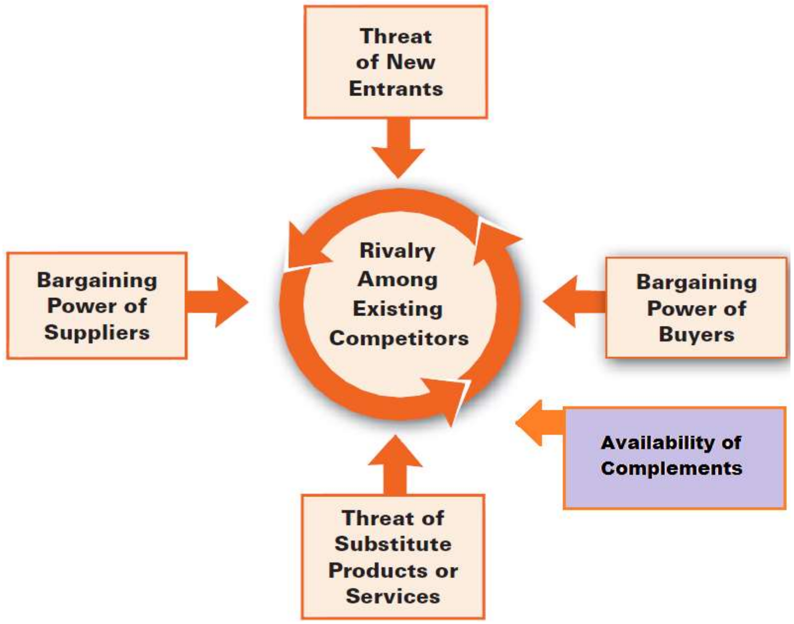
Restaurants are seeing an increase in customer visits during breakfast hours, compared to a slight decline in traffic during lunch and dinner, according to NPD Group. Caterers are also booking more breakfast and brunch events, especially for corporate and fundraising functions, according to Catering Magazine. In response to this trend, a number of chains have been expanding their morning menu offerings and hours. (Hoover's Online. 2015)

Restaurants in Retail stores are able to expand customers' shopping time. Adding cafes, bars, juicers and yogurt stands have helped build traffic. More restaurants have benefited from repeat customers and increased sales by becoming anchor tenants in shopping malls, department stores, hotels, airports, and museums. (Hoover's Online. 2015)

3.2.6. Five Forces Analysis

The most powerful and widely used tool for diagnosing the character and strength of the competitive forces operating in an industry is the *five forces model* of competition. This model holds that competitive pressures on companies within an industry come from five sources: (1) competition from potential new entrants to the industry, (2) supplier bargaining power, (3) customer bargaining power, (4) competition from producers of substitute products and (5) competition from rival sellers. (Thompson, Peteraf, Gamble & Strickland III, 2014).

We use a modified model that includes a sixth force: the “Availability of Complements,” which can alleviate the intensity of competition in an industry. Taking this additional factor into consideration will provide a full picture of the competitive pressures.



3.2.6.1. Threat of New Entrants

Despite the recent financial crisis, the U.S. restaurants industry has maintained moderate growth in recent years. Moreover, low asset specificity, an abundance of suppliers, relatively low levels of initial capital outlay, and the inability of many players to establish a true competitive advantage further entice new entrants. (MarketLine, 2014)

Despite these enabling factors, there are barriers to this industry, including economies of scale experienced by multi-locational incumbents, who can negotiate lower prices with suppliers, submit highly competitive bids to price-sensitive customers and maintain profitability with low margins, stringent food safety regulations and significant labor costs. (MarketLine, 2014)

The restaurants industry is highly regulated and subject to strict regulations on food hygiene because of the risk to human health associated with poor hygiene. Although compliance imposes costs, many aspects of hygiene require good working practices rather than costly expenditure on equipment. Such costs can be reduced to some extent by recruiting key staff who already have the appropriate training. (MarketLine, 2014)

Although labor intensive, the industry rarely needs large numbers of highly-paid staff, and can chiefly rely on less-skilled, temporary or part-time employees (MarketLine, 2014). The proposed increase in the minimum wage further raises barriers to market entry in high labor costs. Overall, the likelihood of new entrants is assessed as **Very High**.

3.2.6.2. Power of Suppliers

The restaurants industry is labor-intensive and workers' wages forming a significant proportion of operating costs. The statutory minimum wage and safety regulations reduces the need for group representation, especially with the multitude of available low-skilled workers. Food service companies tend to be low margin businesses, and it is important for them to be able to source quality foods at low prices. Switching costs may be increased by supply chain disruption, or the inability of a supplier to offer food of adequate quality. (MarketLine, 2014)

Many of the food service suppliers are large companies who serve numerous businesses. This means that they are under less pressure to keep their prices down, as the loss of business with any one contract is unlikely to affect revenues too much. Consequently, these companies are able to exert significant negotiating power, thereby enhancing supplier power. Overall, supplier power is assessed as **Medium**.

3.2.6.3. Power of Buyers

The restaurant industry is not essential to consumers; it tends to be seen as a leisure activity that can be forgone in difficult financial times. Most consumers cook their own food at home. Large players in the restaurants industry invest heavily in brand-building, particularly in the low- and medium- price segments. Such branding helps to drive customer loyalty which, along with social functions and the convenience of food service, means the industry represents more to the consumer than a simple source of food. (MarketLine, 2014)

Buyers in this industry are the general population, and as such are vast in number but hold little financial muscle. The large number of transactions means that the impact of any single customer on revenues is likely to be fairly small. The exception here can be in the case of premium-price, non-chain restaurants, whose business model relies on low-volume, high-margin sales. Although this lack of financial muscle minimizes the power of buyers, they benefit from the lack of costs incurred by switching from one food service player to another. (MarketLine, 2014)

Overall, buyer power is assessed as **Medium.** (MarketLine, 2014)

3.2.6.4. Power of Substitutes

The restaurants industry is not essential to consumers, who can cook their own food. The main switching cost for consumers is the time and effort spent in the kitchen. Home-cooked food tends to be cheaper and healthier than restaurant meals, especially from fast food and takeaway outlets. Besides, the cultural increase in snacking and 'eating on the go' has reduced the number of formal meal occasions in each consumer's week and driven business to retailers instead. (MarketLine, 2014)

Restaurants also face growing competition from new sources especially alternative food providers like retailers that offer prepared foods. Supermarkets and convenience stores are typically closer to home and part of consumers' regular schedule. To compete, more restaurants offer take-out options. (Hoover’s Online. 2015)

Other substitutes include alternative leisure or social pursuits, such as movie and theater going since consumers could socialize there as opposed to meeting friends for a meal in a restaurant (MarketLine, 2014). As such, many restaurants now sell an “experience,” as well as food and drink either through investment in brand building and advertising or focusing on the influence of a particular style of cooking. The threat of substitutes is assessed as **Very High**.

3.2.6.5. Availability of Complements

Complements provide greater value when used jointly with another resource, and are readily available in the restaurant industry. Restaurants often complement their menu with alcoholic beverages like craft beers or cocktails, which are making a resurgence. Some restaurants also carry wines recommended to pair with specific menu items, while others have Cigar Lounges in sealed spaces separated from dining areas. The most popular complement to dining is the inclusion of playground facilities either indoors or outdoors in the restaurant structure and live or canned music. Playgrounds provide a respite for parents, who can better connect with their adult dining partners, and serve as an attraction for children who get to remain active prior to their meals. The availability of complements is assessed as **High**.

3.2.6.6. Intensity of rivalry

Full-service casual restaurants compete with food prepared at home, fast-food or limited service restaurants, fine-dining establishments, specialty eateries like coffee shops, and grocery stores. According to data from Morgan Stanley, demand for casual dining has shrunk despite the economic recovery from the 2008 recession. For example, traffic at popular casual establishments such as Roman’s Macaroni Grill, Olive Garden and The Cheesecake Factory has fallen up to 25% since peaking in 2006. (Hoover’s Online. 2015)

With the exception of a small number of large, multinational chains, many competitors are small to medium businesses. Thus, there are numerous companies with similar structures, offering similar products at similar prices within any segment. Since consumers incur no switching costs when changing foodservice providers, rivalry is intensified among players. However, it is possible to differentiate establishments, in terms of the types of food sold, ambiance or decor and menu prices. (MarketLine, 2014)

As profitability depends on sales of high-margin items and effective marketing, large companies have advantages in marketing, purchasing, and access to capital, although smaller establishments can compete effectively by offering superior food or excellent customer service. Both players also benefit from the relative ease of expansion. (Hoover's Online. 2015)

Exit costs are not unduly expensive as physical assets can be sold at a good price. Additionally, most employees laid off are not eligible for costly redundancy payments. (MarketLine, 2014).

Overall, rivalry in the restaurants industry is assessed as **Very High**.

3.2.6.6.1. Industry Competitors

Peer multi-unit family and casual dining restaurant operators in the mid-price range include Bob Evans Farms, Inc., Cracker Barrel Group, Inc., Denny's Corporation, Frisch Restaurant Group, Red Robin Gourmet Burgers and Ruby Tuesday, Inc. (Luby's Inc., 2014 p18). The top three industry direct competitors for Luby's Inc. include Denny's Corporation ("Denny's"), Cracker Barrel Old Country Store ("Cracker Barrel") and Chipotle Mexican Grill ("Chipotle") (McLellan, n.d.).

- *Denny's Corporation*

Denny’s Corporation is one of the leading full-service, family-style restaurant chains in the U.S., with more than 1,680 of its signature eateries located in the U.S., Canada, Costa Rica, the island of Curaçao, the Dominican Republic, Guam, Honduras, Mexico, Puerto Rico, and New Zealand. The company owns and operates about 160 of its restaurants, while the rest are franchised or operate under licensing agreements. (Anderson, n.d.)

Denny's markets itself as a family-friendly dining establishment featuring good value and quality food items. Typically open 24 hours a day, the chain is best known for its menu of breakfast items, including eggs, pancakes, and combination plates carrying such names as All-American Slam, Lumberjack Slam, and the aforementioned Grand Slam Breakfast. Denny's also serves standard American fare (burgers, sandwiches, steak) for lunch and dinner. It relies heavily on discounted price offers and limited-time menu offerings to drive traffic to its restaurants. (Anderson, n.d.)

The company utilizes franchising as a means to expand and oversee its wide-ranging chain of locations without the cost of owning and operating each of them. Corporate-run locations account for about 70% of sales and gives the company a base from which it can control food and service quality. (Anderson, n.d.)

With the casual dining segment struggling with weak consumer spending in its direction, Denny's thrived by stressing value through effective marketing, national advertising campaigns and placing its locations near interstate highways. (Anderson, n.d.)

- *Cracker Barrel Old Country Store*

Cracker Barrel Old Country Store operates 633 stores in 42 states, featuring a rustic, old country-store design and a restaurant menu with home-style country food and a range of decorative and functional items, including rocking chairs, holiday and seasonal gifts and toys, apparel, cookware and foods. (Mergent Online, n.d.)

Cracker Barrel's restaurants serve breakfast, lunch and dinner daily. Breakfast items include juices, eggs, pancakes, fruit and yogurt parfaits, pork and turkey bacon, country ham, sausage, grits, and a variety of biscuit, such as gravy and biscuits and country ham and biscuits. Lunch and dinner items include country ham, chicken and dumplings, chicken fried chicken, meatloaf, country fried steak, pork chops, fish, steak, roast beef, vegetable plates, a variety of salads, sandwiches, soups and items such as pinto beans and turnip greens. Cracker Barrel also serves lower calorie breakfast, lunch and dinner items. (Mergent Online, n.d.)

Cracker Barrel also provides items for sale in the gift shops that are featured on, or related to, the restaurant menu, such as pies, cornbread mix, coffee, syrups and pancake mixes. The gift shop provides a variety of decorative and functional items such as rocking chairs, seasonal gifts, apparel, toys, music CDs, cookware, a book-on-audio sale-and-exchange program and various other gift items, as well as various candies, preserves and other food items. Cracker Barrel also sells certain licensed food products, including ham, premium bacon and deli meat, in grocery stores and other retail channels. (Mergent Online, n.d.)

- *Chipotle Mexican Grill*

Chipotle Mexican Grill owns and operates more than 1,650 quick-casual eateries in and around urban retail areas in the United States, with a handful of locations in Canada, France, Germany, and the UK, that are popular for their burritos and other Mexican food items. In addition to its flagship chain, the company has seven ShopHouse Southeast Asian Kitchen locations, launched an Asian fast-casual concept in Washington, DC back in September 2011. (McLellan, n.d.)

Customers can build a 1-1/4 pound burrito from a lineup that includes chicken, steak, barbecue or free-range pork, as well as beans, rice, guacamole, and various other veggies and salsas. The company claims that with extras, its menu offers more than 65,000 choices. Chipotle restaurants also serve soft tacos, crispy tacos, chips and salsa, beer, and margaritas. (McLellan, n.d.)

Chipotle's affordable prices have allowed it to thrive amid the difficult economic conditions that have hampered the restaurant industry in recent years. For example, the company increased revenue and profits by 18% in 2013 and 2012 from the addition of new restaurants, increase in customer visits, new menu items, and higher menu price. (McLellan, n.d.)

While very much a quick-service restaurant chain, Chipotle has successfully differentiated itself from other fast-food brands by focusing on its distinctive customer experience and food quality, enhanced by its made-to-order system. The company promotes the fact that it uses organically grown produce whenever possible and that the animal products are naturally raised and antibiotic free, with most restaurants featuring minimalist interior designed to appeal to the young adult segment. Chipotle owns all its establishments and maintains rigid control over food quality, resulting in its rapid expansion over the past five years, where it opened 180 new locations on average each year. (McLellan, n.d.)

3.2.6.6.2. Rivals' Anticipated Strategic Moves

Michael Porter's Framework for Competitor Analysis points to four indicators of a rival's likely strategic moves and countermoves. These include a rival's current strategy, objectives, capabilities, and assumptions about itself and the industry. The following details the three top competitors indicators and concluding anticipated strategic moves:

	Denny's Corp	Cracker Barrel	Chipotle
Current Strategy	Broad Differentiation	Broad Differentiation	Focused Differentiation

	Denny's Corp	Cracker Barrel	Chipotle
Objectives	Improve financial performance Accelerate growth	Improve operating margins, efficiency & effectiveness	Slow Food Fast Service Establish new restaurants
Capabilities	Relationship with main supplier Social Media Branding Open 24/7	Brand identity Quick table turnover Customer satisfaction Nostalgic retail segment	Quality foods & unique prep methods Efficient Service Supplier relationships
Assumptions	America's favorite diner Highly competitive Cyclical industry	Pleasing people Industry seasonality Highly competitive	Great food made fast Food with Integrity Industry Seasonality
Strategic Moves	-Re-brand using updated décor -Increase presence along freeways -Expansion through franchising	-Open new stores -Additional retail distribution center -Reengineer lower cost structure for margin & efficiency -Additional suppliers for retail items	-Expand to new niche markets -Deepen differentiation (healthier menu)

(Fakhouri, Furlong, Lam, Nash & Sauro, 2013)

Each of the top competitors practice some form of differentiation (broad or focused) and are focused on expansion. For Denny's, survival is a struggle and it is making efforts to remain relevant through nostalgia for the small town diner experience. It is has extended hours, great supplier relations and has been successful in promoting its brand using social media, with jokes and puns. The company continues to promote its breakfast offerings, which is advantageous based on the rising demand for breakfast meals. The company expects to continue updating its décor to rebrand itself for the modern age, and continue to increase its presence along freeways to attract travelers and still use franchising as a primary means for expansion.

Cracker Barrel is already profitable, it still looks to expand by opening new stores and increase retail sales. To ease constraints imposed from using a single supplier for its non-food retail items, the company is expected to seek additional suppliers and add one or several distribution centers to improve its delivery network. The company is currently restructuring its operations to lower costs and improve margins in both restaurant and retail sales.

Chipotle is expanding by leaps and bounds in the fast-casual segment, and the rapid establishment of new restaurants is expected to continue. With its unique prep methods that maximize taste and quality, Chipotle has become an American favorite. The company has expanded into Asian fusion cuisine and will likely continue diversifying its portfolio of eateries with other ethnic foods. Its focus on healthier offerings and responsible sourcing is also expected to deepen to a variety of dishes that are vegan or fat free.

In the improved U.S. economic conditions, promoting brands and selling experiences will continue to be the norm in the restaurant industry. The growth trend for healthy fast-casual will also take precedence and competitors are expected to emulate the successful fast-casual chains in order to retain or improve their shrinking market share.

3.2.6.7. Summary of Five Forces Analysis

When weighing the impact of the *five forces* (and complements) on competition, the most prominent that directly impact a restaurant's bottom line are Buyer Leverage and Intensity of Rivalry. Although buyers and suppliers, as individuals, do not exert significant pressure, buyers' patronage as a whole affects survival. Complements are considered moderate and include dining experiences (e.g. magic or comedy shows, live or canned music, playgrounds/areas, cigar lounges, alcoholic beverages, etc.). The factors with high impact on competition are Threat of New Entrants, Threat of Substitutes and Intensity of Rivalry.

It is necessary to analyze the effect of the *five forces* (and complements) on the basis of a company's segments as each segment may have competitive pressures with varying intensity. Luby's Inc. operates in three segments: Luby's Cafeteria, Fuddruckers and Culinary Contract Services ("CCS"). As of Q1 2015, Luby's Cafeteria composes approximately 63% of company revenues, with Fuddruckers following at 27%. Hence Luby's cafeteria performance results has the most profound effect on profitability. See *five forces* analysis on each segment below:

Summary of Five Forces Analysis						
	Luby's Cafeteria		Fuddruckers (Gourmet Burgers)		Culinary Contract Services	
	Now	Future	Now	Future	Now	Future
Buyer Leverage	M	M	M	M	M	M
Supplier Leverage	M	M	M	M	M	M
Threat of New Entrants	VH	VH	VH	VH	M	M
Threat of Substitutes	VH	VH	VH	VH	M	M
*Availability of Complements	VH	VH	VH	VH	L	L
Intensity of Rivalry	VH	VH	VH	VH	M	M
Profit Potential	M	M	M	M	H	H
Rating Key: VL = Very Low, L = Low, M = Medium, H = High, VH = Very High, N/A = Not applicable						

The threat of new entrants for Luby's cafeteria, and Fuddruckers are considered very high due to improved economic conditions, low barriers to entry and initial outlay needed to open a restaurant. This threat is considered moderate for CCS as it's services are for Niche environments which must meet organizational, health and nutritional criteria (e.g. Hospitals), other than consumer tastes. Qualification to serve such contracts and the initial outlay for the required become an additional barrier to entry for that segment.

Threat of Substitutes remain the same for all segments except CCS, mainly due to the captive customer base. For examples, students eat at the school cafeteria based on prepaid meal plans, and may have to leave campus for other substitutes as they usually do not cook for themselves while residing on campus. Patients in hospitals will usually order from the cafeteria based on meal plans dictated by their doctors. They also do not cook for themselves while in the hospital. This is mitigated by hospital staff who can leave to eat at restaurants outside the hospital but rarely do so due to time constraints on their breaks.

The availability of complements are limited for Food Service & Catering, since their services are based on contractual agreements. For the Cafeteria and Gourmet Burger segments, complements are generally available provide an "experience" with meals, e.g. Happy Meals where kids get a toy, playgrounds, unique signature cocktails and alcoholic beverages, etc.

The intensity of rivalry is considered moderate for the Culinary Contract Services segment as opposed to very high for the other segments. This is mainly due to the fact that the number of companies offering institutional catering services are fewer, partially as a result of barriers to entrance. Quality is most valued for this segment, since the additional costs can be passed on to the captive customer, especially at hospitals and higher education institutions.

Finally, the profit potential for Luby's Cafeteria and Fuddruckers is expected to be moderate, in line with industry indicators, while the Culinary Contract Services segment is expected to have higher profits based on the prior year's performance. For 2014, Culinary Contract Services experienced a 30.8% profit margin growth from 2013, compared to -5.99% decline for company owned restaurant margins (Luby's Inc., 2014).

In summary, the restaurant industry attractiveness is medium and the expected overall projected health of the industry is moderate based on stagnant demand for casual dining, which depends on consumer spending and the comparison of the five forces with other related industry segments in which Luby's has a presence

3.2.7. Industry Key Success Factors

Key success factors (KSFs) are those competitive factors that most affect industry members' ability to survive and prosper in the market place, i.e. the particular strategy elements, products attributes, operational approaches, resources and competitive capabilities that spell the difference between being a strong competitor and a weak competitor. (Thompson et al., 2014)

Success depends on high margin items, effective marketing and efficient operations, mitigated by risk around volatile ingredient costs and food safety concerns (Hoover's Online. 2015). As such, organizations who have commitment to quality and efficiency will likely be winners (Hoover's Online. 2015). Consumers pick one restaurant over another based on three main factors: value, quality and convenience (Levy, 2014).

- Value: Although value and price are often used interchangeably, but they differ as one depends on customer perception, while the other is the cost of ownership. Value, defined as the usefulness, desirability or worth of all benefits provided by a good or service, may differ significantly from price. When the cost of ownership is less than the perceived value, consumers are willing to pay the price, and vice versa. While lower prices should draw in more customers and traffic, they also often reduce the restaurants' operating margins, which is not always desirable if the restaurant is constrained by capacity to serve all potential customers. While consumers rely on price to determine value in the absence of other information, value can be conveyed in various ways. Touting the benefits of healthier meal options, removing pricing from display boards, comparing dishes to more expensive or higher caloric content dishes, or touting the value of a dish, while displaying the restaurant price, are all ways to convey value without focusing on price. There are also certain price points at which customers are willing to dine out, such as $10 or $15. By lowering their entry price to those levels, restaurant operators can attract much higher traffic.
- Quality: Typically, a restaurant chain will be established or well known for one kind of product. For example, McDonald's is famous for its Big Mac hamburger and KFC for its chicken. However, consumers' preferences and demographics do change over time. Thus, some major restaurant chains have introduced new products to rejuvenate their menus and diversify

their menus across various cuisine types. For instance, with the Hispanic and Asian-American segments growing at a faster pace than the overall U.S. population, many restaurants are developing new products to target these groups' tastes, often attracting other customers in the process.

- Convenience. The place or location of a restaurant is a critical factor in its success. This is why some restaurant chains make detailed analyses of the flow of both foot and car traffic in selecting their future sites. For example, many fast-service restaurants are located just off a major highway or freeway, so drivers can access them conveniently. Restaurants are also increasing sales through the greater use of drive-through, take-out counters, home delivery, and even using intuitive mobile applications to take orders. (Levy, 2014)

All restaurant operations must provide these three to customers on a consistent basis to gain customer satisfaction. Hence, we can determine that success is dependent on efficient, low cost operations to provide value to customers, and organizations who have commitment to both quality and convenience will likely be winners. Value perception can also be created by brand differentiation or providing complements to the dining menu and restaurant structure in an effort to attain customer satisfaction, which is the highest indicator of repeat patronage and restaurant success.

4.0. Internal Analysis

From our external analysis, the moderate industry attractiveness and key success factors have been established. The Internal Analysis will provide a clear view of what the company's present strategy entrails and how well it is working. The components for our review will include an analysis of the organization, its capabilities and resources, and its financial performance.

4.1. Organizational Analysis

Internal assessment yields information that allows determination of the fit of a strategy and/or provide a basis for a custom strategy that can provide sustained competitive advantage. The analysis undertaken is to provide an understanding of the strategically competitive strengths and weaknesses to meet market opportunities and threats within the bounds of the company mission and purpose.

4.1.1. Corporate Mission

Luby's mission is to be the most innovative and successful cafeteria company in America by providing great quality food, made with fresh ingredients at an excellent value (Luby's Inc., 2014). The staff's byline, "Delighted to Serve," keeps the goal of exceeding customer expectations at the forefront employee's minds, and Luby's Cafeteria Slogan: Tastes like Texas, Feels like Home, shows the company's focus on southern fare and casual comfort.

4.1.2. Products and Services

Luby's is a multi-branded holding restaurant company operating 96 Luby's cafeterias, 70 Fuddruckers restaurants, 8 Cheeseburger in Paradise restaurants and bars, one Koo Koo Roo Chicken Bistro and one Bob Luby's Seafood Grill as of November, 2014. The company primarily operates in the Texas, where it is headquartered in Houston, and employs around 8,490 people. The two most popular brands operated are Luby's Cafeteria and Fuddruckers.

Luby's cafeteria provides its guests convenient, great-tasting, home-style meals at an excellent value and in a friendly environment that makes everyone feel welcome and at home. Luby's Cafeteria restaurants each offers 15 to 22 entrées, 12 to 14 vegetable dishes, 8 to 10 salads, 10 to 12 varieties of desserts daily, and a selection of breads and beverages (Luby's Inc., 2014, p. 8). The most popular item on the Luby's menu is the LuAnn Platter. Considered by Luby's to be the original value meal, it consists of a select entree, two sides and a roll (Luby's

Inc., n.d.). The items available for LuAnn vary from location to location and from day to day and availability varies as well (Luby's Inc., n.d.).

Fuddruckers' delivers quality, inspiring guests to build their own World's Greatest Burger experience, using only 100% fresh, never frozen, all American premium beef, buns baked daily in their kitchens, and the freshest, highest quality ingredients on its "you top it" produce bar (Luby's Inc., 2014). While Fuddruckers offer their signature burger and fries, exotic burgers, such as buffalo and elk, steak, chicken and fish sandwiches, hot dogs, a variety of salads, finger foods, and bakery items are also available. The restaurants also serve soft drinks, handmade milkshakes, beer and wine (Luby's Inc., 2014, p. 9).

Of the lesser known brands, Cheeseburger in Paradise serves unique specialty burgers and unique coastal themed entrees, with the freshest ingredients, in a tropical environment for guests to relax in, while Luby's Culinary Contract Services' provides food service operations at healthcare, higher education, senior living and corporate facilities throughout Texas. (Luby's Inc., 2014)

4.1.3. Leadership

Leadership is the process in which leaders and followers influence one another by communicating ideas and motivating others to support, accept and implement the ideas to achieve organizational objectives through change. Hence, leadership includes a chain of action or activities, and begins with setting the company's vision.

Bob Luby's (founder) vision was to develop a chain of cafeterias that would provide good food, good service and reasonable prices (Luby's Inc., n.d.). That vision has evolved since then, and today, the company's vision is that its guests, employees and shareholders are extremely loyal to the restaurant brands and value them as a significant part of their lives (Luby's Inc., 2014, p. 6).

The company offers a career path to restaurant employees, with increasing levels of responsibility as follows: Crew Member, Manager in Training, Assistant Manager, Associate Manager and General Manager. To become a part of management and be successful in that role, the company offers a full time, paid, comprehensive, nine-week regional training program that participants describe as intense. Candidates may be nominated or apply of their own volition to the Management in Training ("MIT") Program, but must meet minimum requirements, including a college degree and previous restaurant experience. Candidates learn everything from managing kitchens, to customer service, inventory management to meal prep, merchandising to good handling. All area leaders or regional managers to vice-presidents and executives have worked at Luby's or other restaurants and have a deep knowledge of restaurant operations.

Most candidates are top students in the University of Houston Conrad Hilton School of Hotel and Restaurant Management program, where Christopher J. Pappas, Luby's, Inc. Chief Executive Officer sits on the Dean's Advisory Board. It provides him with a means of meeting the budding managers to determine if they are a good fit with the Luby's culture and assurance that candidates have kitchen/cooking experience, which is an integral part of the program.

General Managers and staff are empowered to make changes to customer experience to obtain their satisfaction. General Managers can make changes to the day-to-day menu offerings, operating hours, staffing levels, inventory ordering, etc. They are effectively restaurant owners and are expected to act accordingly. Crew members are allowed to make changes to seating, change guest selections, offer reasonable compensation for unsatisfactory experiences without the need to consult managers on a case by case basis.

4.1.4. Organizational Culture

Culture is the system of shared beliefs, values and assumptions guiding organizational behavior. Perpetual beliefs become values and perpetual values become assumptions. Organizations reward or punish certain beliefs, as exhibited in behaviors, ensuring that the desired beliefs become values as they are perpetuated. This system has a strong influence on the people in the organization and dictate how they dress, act and perform their jobs. Every organization develops and maintains a unique culture, which provides guidelines and boundaries for the behavior of the members of the organization. (McLaughlin, n. d.)

The components of culture include the founder/Chief Executive Officer ("CEO"), compensation, organizational structure and artefacts/activities, all of which provide a framework for an organization to build its identity and ethos.

The Chief Executive Officer of the company commands all the available resources both tangible and intangible and is responsible for "setting the tone" in an organization. Christopher J. Pappas, CEO and Chairman of the Board of Directors has held the position since 2001 and owns 3.6 and 1.1 million shares directly and indirectly (Luby's Inc., 2015), respectively, of 28.8 million shares outstanding (Luby's Inc., 2014), representing a 16.3% ownership in the company. He serves as CEO of Pappas Restaurant, Inc. concurrently and has over 30 years' experience in the restaurant industry.

Mr. Pappas graduated from the University of Texas with a Bachelor of Science in Mechanical Engineering, which is present in the kitchen design of both Pappas and Luby's restaurants in which he was deeply involved. He sits on the advisory board of Amegy Bank N.A. (formerly Southwest Bank of Texas N.A.), and he previously served as a director on its board. Mr. Pappas is also a director of the National Restaurant Association and sits on the Dean's

Advisory Board to the University Of Houston Conrad Hilton School Of Hotel and Restaurant Management and the Greater Houston Partnership Board. (OneSource)

Ernesto Perez, a General Manager of a combo Luby's/Fuddruckers location in Katy Texas describes Pappas as accessible, intense and meticulous. With an eye for detail, Chris Pappas is known to visit Luby's restaurants at random and give his feedback on service, facility care, even the food itself to crew members and managers. A testament to the MIT program, Ernesto applied to the program with experience at another company and made General Manager in four years based on his exceptional performance at several Luby's restaurants.

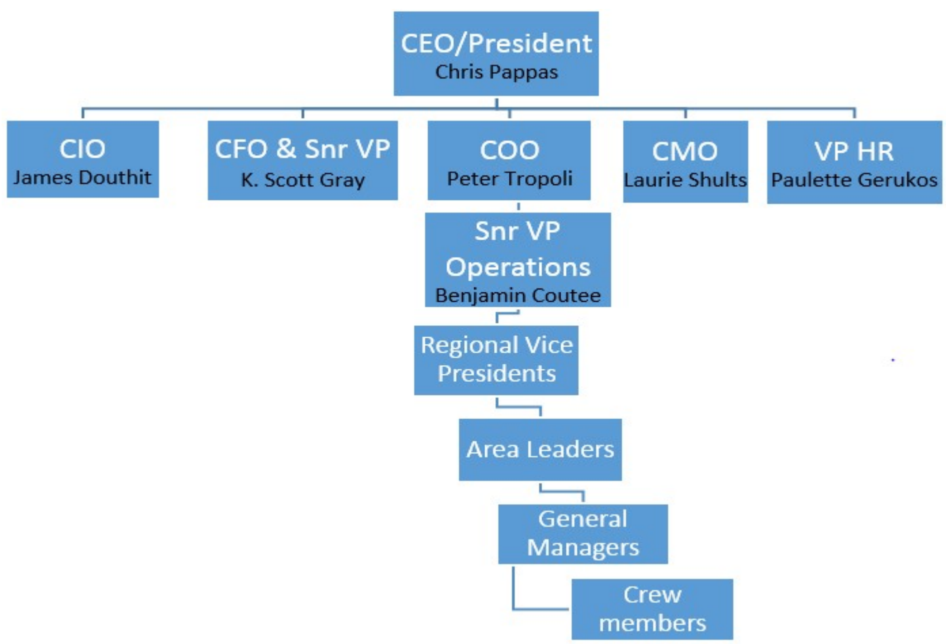
4.1.5. Structure

Organizations are defined by the formal structure, coordination and control systems in place. It is the formal arrangement of roles, responsibilities and relationships within an organization or simply stated, the chain of command, which serves as a powerful tool to implement strategy. Components of organizational structure include Infra-structure (organizational charts of positions), social structure (interactions between individuals and sub-groups) and Super-structure (values and culture).

Luby's Cafeterias and Fuddruckers each operate under the control of a General Manager, who has responsibility and is granted authority to direct the daily operations, including food production and personnel employment and supervision. General Managers are assisted by one to three Associate or Assistant Managers and 25 to 45 crew members who work on full-time or overlap on a part-time basis. Since Luby's and Fuddruckers generally utilize a limited-service concept, similar to fast casual, it typically does not employ waiters or waitresses.

Each general manager is supervised by an Area Leader, who is responsible for up to 10 units, depending on location. Area Leaders report to Area Vice Presidents, who in turn report to the Senior Vice Presidents and Executive Team. Based on this information, we can surmise that Luby's Inc. uses a Geographical Division Structure.

Fuddruckers offers franchises in markets where it deems expansion to be advantageous to the development of the Fuddruckers concept and system of restaurants. Franchisees bear all direct costs involved in the development, construction and operation of their restaurants and are required to operate their restaurants in accordance with Fuddruckers standards and specifications, including controls over menu items, food quality and preparation. The successful completion of the MIT program by a minimum of three managers for each franchised restaurant is required. In addition, franchised restaurants are evaluated regularly by us for compliance with franchise agreements, including standards and specifications through the use of periodic, unannounced, on-site inspections and standards evaluation reports. Franchise locations are included in the organizational structure as well.



Communication within the organization is constant and open. The social structure permits face-to-face, phone and e-mail communication in all aspects of doing business. General

Managers have access to their Areal Leaders, Senior Vice Presidents up to Mr. Pappas in getting information, feedback or soliciting help or answers to questions. The open door policy that Mr. Pappas employs has filtered through the organization, although e-mail is considered the easiest way to reach him as his schedule is always full. Within the restaurant, General Managers are available at their locations, over the phone and via e-mail when they are not present in the restaurant. Considering themselves a part of the Luby's Family, each person has autonomy to complete their tasks as they see fit (consistent with Luby's standards) to ensure customer satisfaction and smooth operations. Hence, open communication is key in responding to changing customer preferences, and Luby's social structure allows its employees to do so exceedingly well.

The super-structure embodies the company's values. Luby's refers to its customers as "guests," indicating their focus on hospitality, and their restaurant staff as "crew members," indicating the focus on teamwork. The company is known as one that cares about its guests, committed to its employees and focused on providing value to its stakeholders. Employee commitment and customer care is evidenced in the rigorous training employees go through and the empowered staff who can make decisions to improve customer experiences at their locations. An example of the company culture exhibited is found in the aftermath of the 1992 Luby's Restaurant Massacre where several people were killed at a Killeen TX location, the company management were physically present and a community fund for the victims set up within the same day. Also notable was the fact that all employees were put on the payroll indefinitely pending the store closing to reset order and deal with authorities accordingly. The compassion shown to the victims and its staff stood it in good stead. (Lee, 1992)

Luby's employees are compensated based on their sphere of influence. Associate & General Managers are responsible for their restaurants and, in turn, are paid bonuses based on their restaurant's profit margin, apart from their base salary. This strategy is a significant factor contributing to the profitability of Luby's restaurants. The company offers restaurant-level staff hourly wages, overtime pay, pay for initial and continued training, group health insurance, and 401-K matching. For crew members, there is a management referral bonus program to recognize excellence, a generous meal plan for managers and their immediate family, and two consecutive days off per week for full time staff. The company also guarantees no late hours as restaurants close by 8:30pm latest. Other intangible rewards are the "Employee of the Month" awards and the intense training and accelerated coaching system and task autonomy. According to Ernesto (see Organizational Culture section), being a General Manager at Luby's means you can leave to own your own restaurant or become Vice President elsewhere in the industry because you make decisions at a strategic level.

4.1.6. Strategy

"A company's strategy is its action plan for outperforming its competitors and achieving superior profitability over the long term to growth and secure the company's future. This means competing *differently* from rivals, doing what they don't or *can't* do. Strategy represents a managerial commitment to an integrated array of considered choices about how to compete. These include choices about how to… (1) attract and please customers, (2) compete against rivals, (3) position the company in the market place, (4) best to respond to changing e economic and market conditions, (5) capitalize on attractive opportunities to grow the business, and (6) achieve the company's performance targets." (Thompson et al., 2014, p. . 4)

Companies select one of five generic strategies which boil down to (1) whether a company's target market segment is broad or narrow, and (2) whether the company is pursuing a competitive advantage linked to lower costs or differentiation:

(a) low-cost provider strategy, (b) broad differentiation strategy, (c)focused low-cost strategy, (d) focused differentiation strategy, and (e) best cost provider strategy.

4.1.6.1. Current Strategy

The company's owned and franchised restaurants locations are convenient to shopping and business developments as well as to residential areas to appeal to a variety of customers at breakfast, lunch and dinner (Luby's Inc., 2014, p. 59), indicating a broad target market segment.

The company competes based on quality, value, service, concept, price and location with well-established national and regional chains, as well as with locally owned and operated restaurants (Luby's Inc., 2014, p. 24), and while the company uses its brands to differentiate its restaurants, its food/menu is not sufficiently differentiated to command a higher price compared to its direct competitors. As such, we can conclude that Luby's current strategy is the Best Cost Provider.

4.1.6.2. Components of Strategy

Operationally, Luby's continues to focus on enhancing the customer experience through improved operations, service and leadership initiatives, targeted marketing, enhanced menu options and sales initiatives emphasizing food quality (Luby's Inc., 2014, p. 4). Luby's refers to its customers as "guests" and works to ensure their satisfaction through:

- Everyday value pricing to build long term guest loyalty and frequency
- Using only the highest quality ingredients & ensuring excellence in its kitchens
- Renovating restaurants for updated, comfortable and inviting atmospheres

- Crew member hospitality training and restaurant management empowerment to direct daily store operations (p20)

Furthermore, to improve profitability and effectiveness, the company continues to expand nationally and internationally, motivate staff by linking restaurant performance to non-recurring compensation and recently established Luby's Cafeteria/Fuddruckers combo units to improve economies of scale (Luby's Inc., 2014, p. 20)

4.1.6.3. Competitive Strength

Luby's strategic focus on exceeding guest expectations to build visit frequency and customer loyalty, coupled with its aim at providing value at reasonable prices should provide competitive strength in the industry. Unfortunately, that strength is limited its existing customer base, and attracting new customers remains a challenge when compared to its peers.

4.1.7. Summary of Organizational Analysis

Based on the organizational analysis, we can see that Luby's structure and culture are in place to offer employees and customers with tools needed to create strong relationships with them. The company has a multi-faceted strategy in place to meet its mission requirements, which is focused on creating great guest experiences, one customer at a time. However, there is nothing specific in that culture that is geared towards building brand loyalty as Luby's has indicated is its vision.

The company's experienced management team has provided good leadership, although a conflict of interest exists with the CEO since he is part owner of a competitor brand as well (Pappas Restaurant). This is mitigated by his significant financial interest in the company to a large degree. Luby's compensation packages for front-line employees meet the minimum wage requirements with standard industry benefits and management compensation is comparable to industry average, with performance incentives which impact employee productivity.

4.2. Analysis of Firm Resources

A resource is a productive input or competitive asset that is owned or controlled by a firm. Firms have many different types of resources at their disposal which vary not only in kind but in quality as well. Some are also more competitively valuable, having a greater potential to give a firm a competitive advantage over its rivals (Thompson et al., 2014, p. . 87). There are four tests of a resource's competitive power based on whether it is valuable, rare, inimitable and non-substitutable. The first two determine whether a resource can support a competitive advantage, while the last two determine whether the competitive advantage can be sustained in the face of active competition (Thompson et al., 2014, p. . 90)

4.2.1. Tangible Resources

The company owns 53% of the real estate of its operating stores (92 of 174 total restaurants) and leases the remaining, both of which approximate $213 million at cost on its balance sheet. The fair market value of property and equipment related to company-owned restaurants were valued at $6.4 billion for the year ended August 27, 2014. The properties are concentrated in Texas (127 restaurants of 174), and located mainly in suburban, residential areas. (Luby's Inc., 2014)

The company has access to a $70 million revolving credit facility on which it can borrow for expansion and maintaining operations. Total available borrowing capacity at August 2014 was $49.3 million and the company retains the ability to increase the facility to $90 million as needed. It should be noted that the properties owned have a first priority lien for the $70 million credit facility entered into in the 2014 fiscal year.

In May 2013, Luby's chose to deploy xchangexec software suite from Task Retail Technology ("TRT") across all of Luby's, Inc. restaurants. The xchangexec suite is aimed at enhancing Luby's brands' ability to provide customer loyalty offerings, increase revenue through upselling and suggestive ordering, and implement digital media solutions, with flexible access to detailed and insightful business intelligence and an overall revamp of customer-facing technologies. Partnering with TRT, a provider of enterprise centric, cloud based, point-of-sale software and services, Luby's standardized its store systems platform so as to increase process productivity in the restaurant support center, as well as provide a flexible means of integration opportunities to drive value from the business model. (Edgell Communications, 2013)

4.2.2. Intangible Resources

Luby's, Inc. commands certain trademarks and licenses exclusively:

- Luby's Cafeteria trademarks,
- Fuddruckers trademarks and franchise agreements,
- Cheeseburger in Paradise trademarks, service marks, license agreements and publicity rights,
- Cheeseburger in Paradise location favorable leases, and
- Acquired licenses and permits allowing the sale of alcoholic beverages

Active Luby's employees number 8,490 consisting of management and non-management office and facility service employees (Luby's Inc., 2014, p. 10). With a focus on guest experience, Luby's employees are taught how to do their work efficiently and are empowered to provide service to exceed guest expectations.

Luby's home made recipes are also an asset to the company, although the company printed some in a recipe book for sale to the public in 2006 on honor of its 60^{th} anniversary.

Although standard recipes are taught to General Managers as part of their kitchen management training, they have the authority to modify them to suit customer tastes and preferences. In addition, the restaurant continually adds to its recipe menu to include or improve healthy foods.

As of November 4, 2014, Luby's had 51 franchisees operating 110 Fuddruckers restaurants in locations. The largest six franchisees own five to twelve restaurants each. Twelve franchise owners each own two to four restaurants each and the thirty-three remaining franchise owners each own one restaurant. (Luby's Inc., 2014, p. 7)

As of November 4, 2014, Luby's had contracts with 13 long-term acute care hospitals, one acute care medical center, one ambulatory surgical center, one behavioral hospital, two business and industry clients, three higher education institutions, one Children's Hospital, two Medical office building and one freestanding coffee venue located inside an office building. (Luby's Inc., 2014, p. 10).

Many of the food and beverage products Luby's purchases are affected by commodity pricing and subject to price volatility caused by production problems, shortages, weather or other factors outside of its control. In anticipation of changes in commodity prices, Luby's enters into short term purchase commitments with various suppliers to keep ingredient costs predictable (Luby's Inc., 2014, p. 14). Typically, these commitments expire within a year and are cancelable up to 30 days prior to the vendor's scheduled shipment date. This enables the company to keep menu prices stable and reasonable.

4.2.3. Summary of Firm's Resources

When considering the strength of firm resources in supporting or sustaining competitive advantage, we review whether they are valuable, rare, inimitable, and non-substitutable (VRIN) from the standpoint of its rivals. Valuable and rare resources support competitive advantage, while inimitable and non-substitutable ones sustain it.

Luby's organizational structure is based on geographic divisions for each brand and restaurant managers have a great deal of autonomy in accommodating customer preference to gain service satisfaction. With a decentralize approach to management that encourages open communication, Area Leaders and Vice-Presidents have a finger on the pulse of their regions, adding flexibility to such a large organization, which needs to respond quickly to changes in customer preferences.

Real estate is highly valuable as is geographic location, however with land and development readily available in Texas, they are not particularly rare. Locations can also be imitated and substituted by peers with a different location or focus on urban areas. Hence their support of competitive advantage is considered moderate and weak respectively.

Access to credit and the company's use of technology provide weak and moderate support to competitive advantage, respectively. The company has moved to an enterprise resource planning system that integrates their supply, inventory, production, safety and point of sale systems to provide up to date information for better decision making. These are valuable for operations, but not rare or difficult to imitate, as competitors do the same. Competitors generally have good credit and access to capital markets as a substitute for debt. The ERP system, while not proprietary, has been adjusted to suit the Luby's business model and is therefore hard to substitute.

Intangible resources that are very strong in supporting and sustaining competitive advantage include trademarks & licenses, franchise agreements, catering contracts and supplier contracts, which are all specific to the company and therefore meet all the requirements of the

VRIN test. Having a work force, well-trained and assembled the Luby's way, including the managerial talent and leadership skill inculcated in its management staff is difficult to imitate and cannot be substituted.

Luby's great recipes are for comfort foods that can be made at home and with the release of their cookbook, is no longer inimitable. The dishes can also be substituted for other niche foods by competitors. Hence the recipes provide support competitive advantage but do not sustain it.

	Valuable	Rare	Inimitable	Non-substitutable	Support/Sustain Competitive Advantage?
Tangible Resources					
Organizational Structure	Y	N	N	Y	Moderate
Real Estate	Y	N	N	Y	Moderate
Geographic Concentration	Y	N	N	N	Weak
Credit Access	Y	N	N	N	Weak
Technology	Y	N	N	Y	Moderate
Intangible Resources					
Trademarks & Licenses	Y	Y	Y	Y	Very Strong
Trained workforce	Y	N	Y	Y	Strong
Recipes (home-made)	Y	Y	N	N	Moderate
Franchise agreements	Y	Y	Y	Y	Very Strong
Catering Contracts	Y	Y	Y	Y	Very Strong
Supplier Contracts	Y	N	Y	Y	Strong

4.3. Capabilities

A capability is the capacity of a firm to perform some internal activity competently. Capabilities vary in form, quality, and competitive importance, with some being more competitively valuable than others. Organizational capabilities are developed and enabled through the deployment of a company's resources or some combination of its resources (Thompson et al., 2014, p. 87)

Luby's capabilities include employee training, precision in kitchen management, making dishes from scratch every day, and excellent target marketing. The proven the MIT program recruits and builds restaurant management skills so that degreed employees that have shown aptitude for their business can make a career at Luby's. Crew member training is also something that Luby's does well. Luby's also rewards its employees for their performance, with discretionary bonuses for crew members and a share of restaurant profits for managers. As a result of consistent training and coaching, the company enjoys great employee relations, never having had a strike or work stoppage and is not subject to bargaining agreements.

Based on the Ernesto Perez interview (see Organizational Culture section), we understand that Luby's and Fuddruckers have made precision to an art in food preparation, food safety and kitchen management. The kitchens are designed for optimal work flow and built with materials and appliances that are easy to clean and sanitize on a daily basis. Recipes (after modification for local customer tastes) are precisely followed, prep work is efficient and methodological cooking procedures followed with chef supervision and consistent monitoring.

For example, the chef and sous chef check ingredient quality and taste dishes at each stage of food preparation and before they are served. Dishes are prepared in small batches for quality control, with utensils, dishware and cookware sanitized after each use, and the whole kitchen is cleaned and sanitized every night.

For food safety, Luby's personal hygiene program enforces a strict hand washing policy: double-wash hands with a nail brush before starting work and after each restroom visit, washing hands between tasks and mandatory hourly hand washing. In addition, employees use hand sanitizers, tongs and utensils to transfer cooked foods to serving lines and gloves when working in the salad preparation area. (Sysco, 2012)

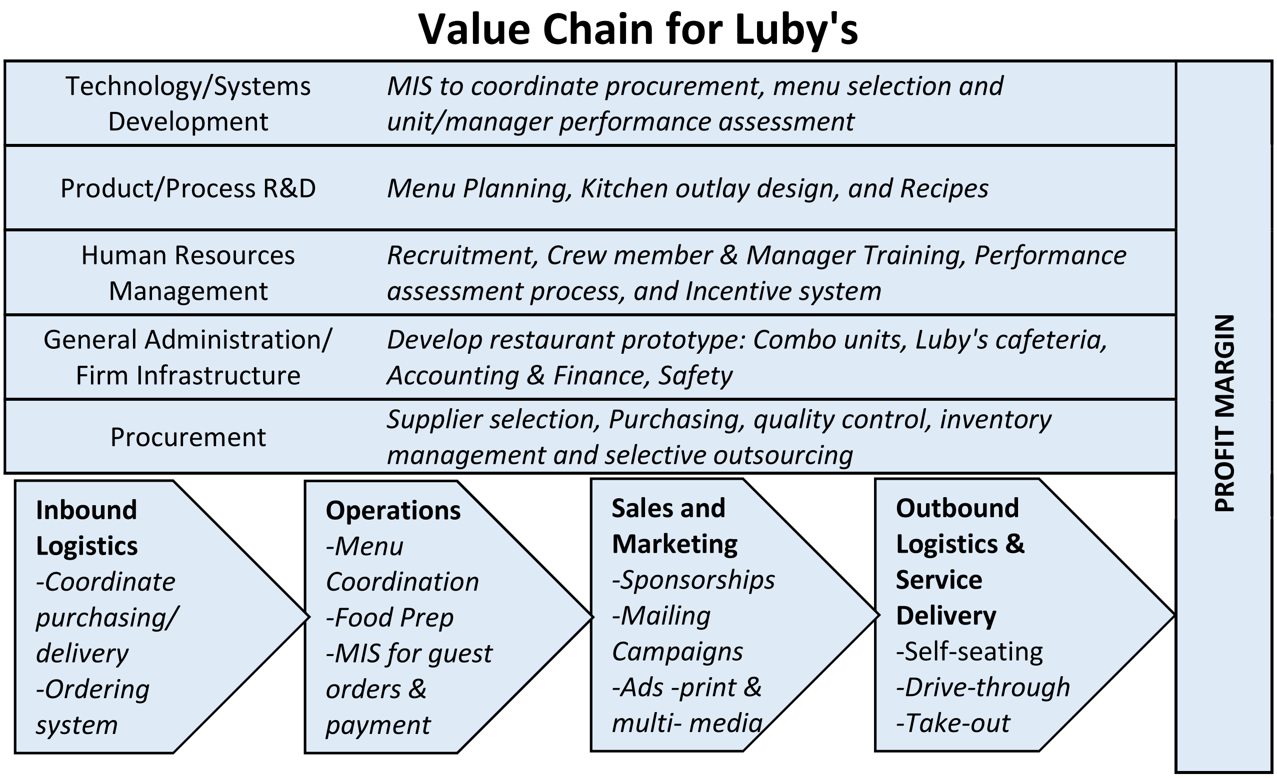
Luby's makes each dish from scratch without taking any short-cuts. They do not order food pre-prepped or frozen, nor do they outsource any part of its dish preparation. Its food is consistently rated excellent based on its methodological and efficient approach to food prep and safety, which is embedded in management training. The company also prides itself on obtaining the freshest ingredients available both in its locality and beyond, and using those ingredients to make its dishes every day. As such supplier relations are paramount both for quality and value. Although it currently does not have access to low-cost ingredients compared to its rivals has a large menu, making dishes from scratch could be a source of competitive advantage.

The company also has a great marketing function using billboard advertising, frequent and regular direct mail campaigns, local sponsorships, enhanced point-of-purchase advertising, and a full year schedule on a selected radio and cable television spots (Luby's Inc., 2014, p. 24, p28). Apart from this, Luby's locations make value and convenience offers to their target market, including Buffet days or times, Kid Eat Free days (after 4pm), Senior discounts on the LuAnn platter (Senior LuAnn), Free Wi-Fi, Food To Go counters, and full breakfast at some locations, and drive-thru, also at select locations.

The restaurants also offer everyday value pricing. The famous LuAnn platter, consists of an entrée, two sides and a roll at $7.99, daily Manager Specials starting at $6.99, Classic Combos, similar to the LuAnn with an entrée, two sides and a roll, but with a different entrée selection, priced between $8.99 to $10.99, Soup and Salad combos starting at $3.99 and a la carte dishes averaging $5.99 each.

4.3.1. Value Chain Analysis

Luby's value chain system is embedded in a larger system of activities that includes the value chains of its suppliers. Below is a value chain that exemplifies Luby's operations.



(Zorro96, 2010)

As previously mentioned, Luby's utilizes an enterprise wide resource planning system that integrates all phases of its operations. Using its systems, Luby's coordinates procurement, menu selection and can assess profitability, inventory, customer sales and satisfaction from the same system on a company-wide and restaurant scale basis.

The company plans its menu, and designs its kitchen to ensure optimal work flow for food prep. It constantly researches for more cost effective ways of doing things in the kitchen. For its menu, Luby's solicits restaurant staff and customer feedback on specific dishes to determine what (if any) changes or additions should be made.

The company has an outstanding incentive system for managers and crew members who look at customer satisfaction and restaurant profitability as their bottom line. The MIT program is also an outstanding one that inculcates Luby's methodology and procedures in managers and mangers in training. Recruitment of experienced staff for management roles also helps Luby's gain a knowledge base outside of its own for ideas and experienced customer handling.

The company has safety inspectors that visit its locations at random to determine whether they adhere to Luby's exacting standards. Its accounting and finance section are instrumental in providing up to date information on restaurant and company performance so that decisions can be made timely. Also important is the development of its new concept restaurant that houses a Luby's Cafeteria and a Fuddruckers unit under one establishment, with one General Manager. The prototype combo units have been tested on a small scale and are now being expanded, due to the economies of scale from a procurement and staffing standpoint.

Procurement has a huge impact on quality since the company makes all its food from scratch. Stale ingredients and old meats would result in poor tasting dishes. As such, punctuality in deliveries and order accuracy is important to support a well-running restaurant. The company has contracts in place with various food suppliers that meet their quality and scale requirements. Having a main supplier on contract also provides economies of scale from a procurement perspective. Certain parts of the procurement can be outsourced as well, e.g. the delivery company.

Luby's operations includes coordinating ingredients purchasing and delivery using a sophisticated ordering system. General Managers coordinate the menus to ensure that dishes are prepped and served timely without long customer waits and without being left out for too long. Food is prepped using company recipes by experienced kitchen staff in line with food safety standards and Luby's cooking methodology. The company utilizes an integrated Point-Of-Sale system that tracks what is ordered and sales per tickets so that updated financial information is readily available.

Large scale marketing campaigns, like radio ads and billboards are handled by corporate headquarters. However, restaurant marketing is coordinated by the General Manager and his Associate or Assistant Managers. This includes print ads, mailing campaigns, coupon distribution, local sponsorships for family oriented events, kids' sports teams, charities, etc.

Food is self-serve and customers seat themselves, although Crew Members are available to provide refills, help with complicated seating arrangements, bussing tables, etc. as needed. Depending on management discretion, some locations provide Take-Out counters and Drive-through for customer convenience as well.

4.3.2. Core Competencies and Sustainable Advantages

A core competence is an organizational capability to proficiently perform an activity (or activities) that is (are) central to the established strategy (Thompson et al., 2014, p. . 93). Sustainable advantage is derived from distinctive competence, which is any competitively valuable activity that a company performs better than its rivals. Hence distinctive competence signifies a greater proficiency than a core competence. (Thompson et al., 2014, p. . 93)

The company's core competency lie in its ability to make all their menu offerings from scratch daily, and to do so in small batches for quality control and reduce waste. Its target marketing to families and seniors also draws customers to the restaurant at specific times and days. Unfortunately, these core competencies do not set it apart from its rivals, nor does it have advantages that are sustainable over its rivals.

The cafeteria line is not as quick as fast casual restaurants like Chipotle, it's food serves a broad customer base with no niche or anchor dish, its locations work independently to serve local customers, and other than the menu and standardized portion, the price is moderate (not too high, not too low). As such, with few differentiating attributes, other than the cafeteria style dining, which seems to be falling slowly out of favor with the new generation, Luby's does not have a core competency to provide it a sustainable advantage.

4.3.3. Summary of Firm's Capabilities

Luby's capabilities are moderate but not strong in comparison to its competitors. While the company does make all of its food from scratch, there are other restaurants that do the same and offer full service as well. Its unique strengths lie in its employee training, precision kitchen management and excellent target marketing. These competencies are valuable, but are not rare and can be substituted, although it would require significant investment and time for competitors to learn how to do things the Luby's way and duplicate the company's internal operations.

Capabilities	Valuable	Rare	Inimitable	Non-Substitutable	**Support/Sustain Competitive Advantage?**
Employee Training	Y	Y	N	N	Moderate
Precise Kitchen Management	Y	Y	Y	N	Strong
Making dishes from scratch	Y	Y	Y	N	Strong
Excellent Target Marketing	Y	N	N	N	Weak

4.4. Financial Analysis

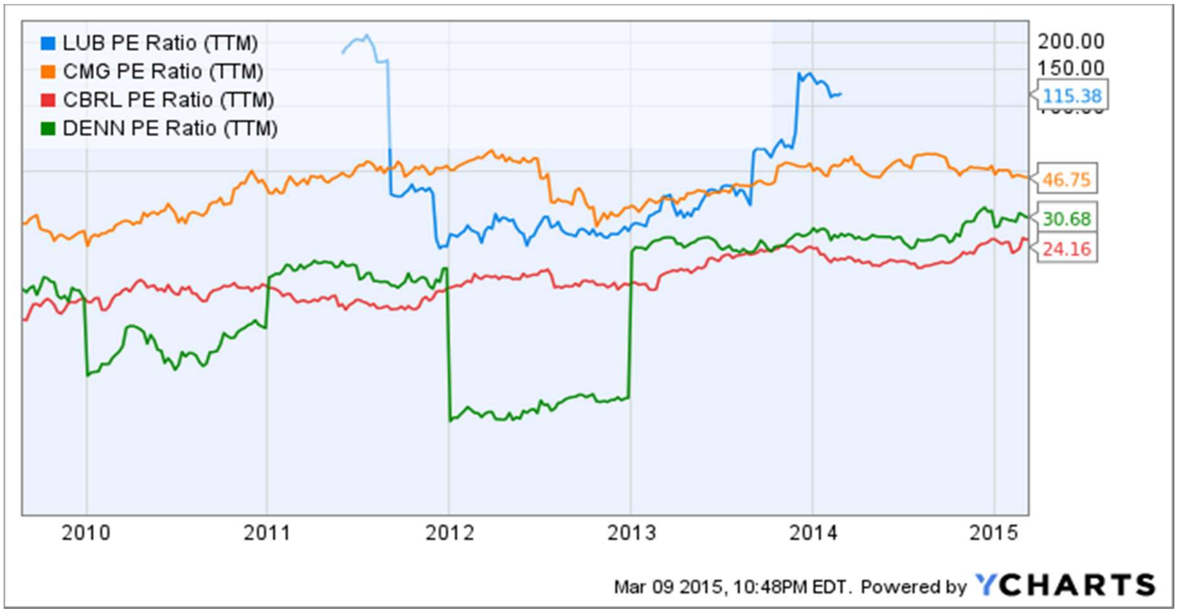
Companies with strong overall performance usually have a well-conceived, well-executed strategy. Therefore, financial analysis provides a basis for determining strategy performance by comparing to industry average and peers, gaining new customers and/or increasing market share. Luby's strategy performance is analyzed in comparison with the market and competitors, specifically Chipotle Mexican Grill (CMG), Cracker Barrel (CBRL) and Denny's (DENN). Comparing Luby's results over the past five years, also provides context for historical performance. Outside of financial performance, other metrics such as change in same store sales, restaurant openings/closings, number of franchises (Fuddruckers) also help to provide a basis for measuring strategy execution. Using the findings in each financial analysis category, we will rate performance as Poor, Needs Improvement, Average, Good and Excellent.

4.4.1. Valuation Analysis

This form of fundamental analysis answers the simple, yet vital question "Are Luby's managers creating value for shareholders?" We will review Luby's Price/Earnings ratio, P rice/Sales Ratio, Price/Book Ratio and Price/Cash Flow Ratio compared to competitors and the Market median as of the end of the 2014 fiscal year and its own historical values as well.

- Price/Earnings ("P/E") Ratio: P/E ratio, calculated by dividing the stock price by the earnings per share, serves as an indicator of investor expectation of stock price growth. It shows (in multiples of earnings) how much investors are willing to pay per dollar of earnings. A high P/E ratio generally indicates investor confidence in receiving value for their money, although unreasonably high P/E ratios can be speculative in nature. (Investopedia)

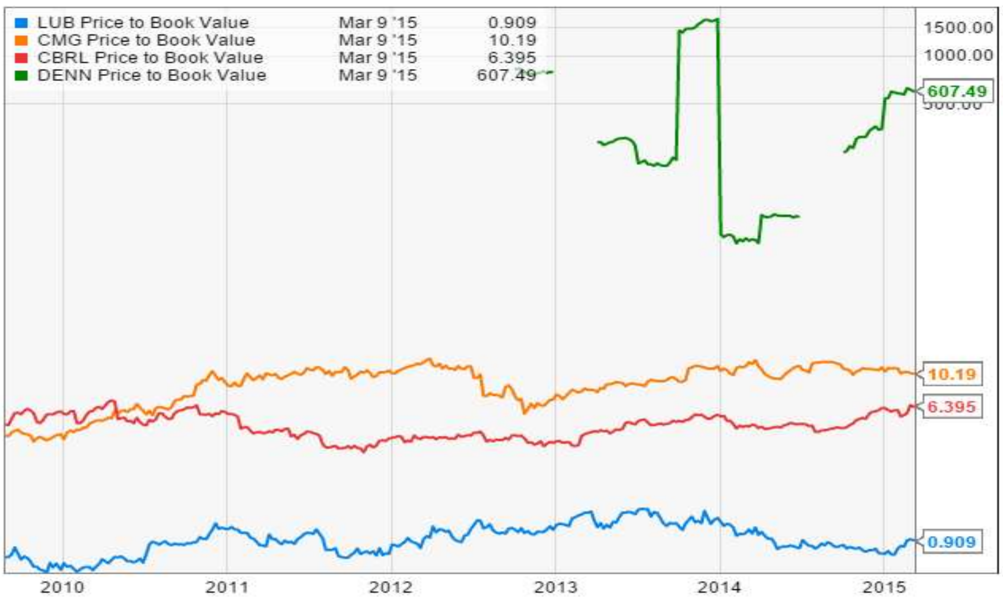
With losses in 2010 to mid-2012 and 2014, Luby's trailing twelve-month (TTM) P/E ratio can movement can be described best as erratic. The 115.38 value as of February 27, 2014 (Q1) is obviously speculative when compared to its competitors who have had consistent profits in the past 5 years.



- Price/Sales ("P/S") Ratio: The PS ratio, calculated by dividing the stock price by sales, indicates the value placed on each dollar of a company's revenue. It serves as an alternative when companies suffer losses and therefore have no PE ratio for investor valuation purposes. A low ratio may indicate possible undervaluation, while a large ratio may suggest overvaluation. (Investopedia)

Luby's P/S ratio (0.4) is significantly lower than its competitors and has been on a declining trend since July 2013, hitting a five-year low in January 2015.

- Price/Book ("P/B") Ratio: The PB ratio, calculated by dividing the market price by its book value of equity, indicates the value placed on each dollar of a company's remaining assets after liabilities are settled (Investopedia). A PB ratio less than one indicates that either the market believes the asset value is overstated, or the company is earning very poor (or negative) return on its assets (Investopedia). Luby's P/B ratio is significantly lower than its competitors, with a stable trend between 1.36 and 0.59 in the past 5 years implying a poor return on assets.



- Price/Cash Flow ("P/CF") Ratio: P/CF ratio, calculate by diving the share price by the operating cash flow per share, is useful in valuing stocks that have a positive cash flow but are not profitable because of large non-cash charges. A low ratio in the single digits may indicate a stock is undervalued, while a higher ration may suggest potential over valuation. (Investopedia)

At the end of fiscal year 2014, Luby's performed poorly in all metrics compared with the Market Median and its competitors, except in Price/Cash Flow Ratio, where it beat Denny's by a small margin. Valuation Analysis results are considered **Poor**.

2014 Valuation

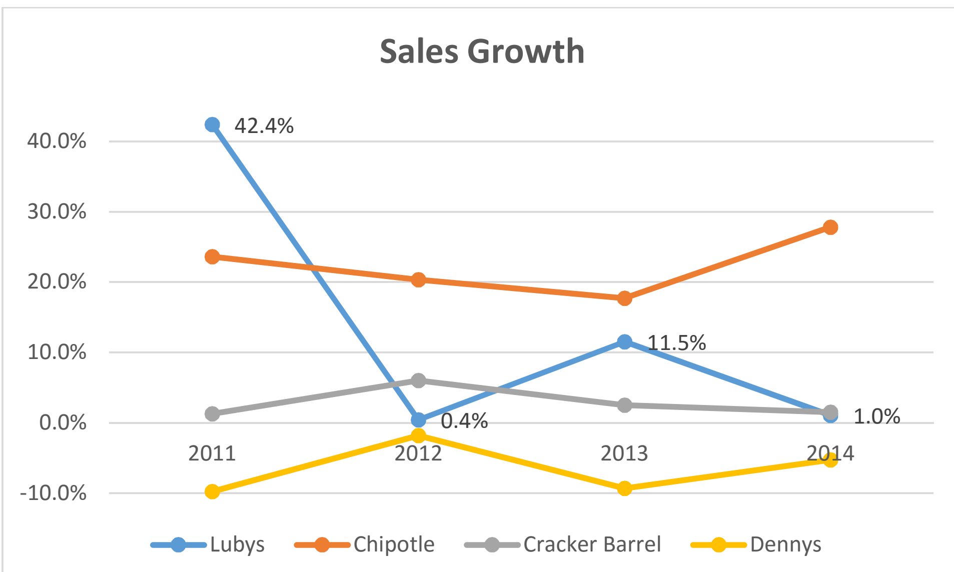
	Luby's	Chipotle	Cracker Barrel	Denny's	Industry Median	Market Median[1]
Price/Sales Ratio	0.35	--	--	1.85	--	1.64
Price/Earnings Ratio	--	47.70	21.49	22.16	--	20.08
Price/Book Ratio	0.79	10.55	5.73	247.86	--	1.94
Price/Cash Flow Ratio	11.30	31.15	12.01	9.96	--	12.41

(Hoovers, 2015)

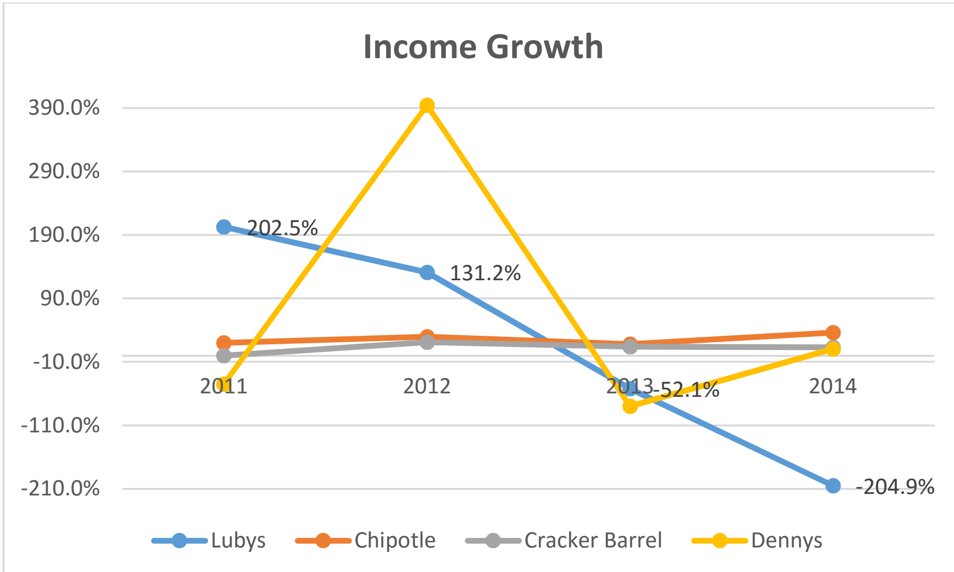
4.4.2. Growth Analysis

Growth rate analysis measures a company's performance metric at a point in time compared to a point in the past and informs management of the company's position and identifies the year to year positive or negative growth in terms of sales and income. Companies in different stages of their life cycle have different growth rates and their results can be skewed based on their organizational size as well. Larger companies often have lower growth rates because of the sheer amount of businesses they do. Hence, it is important to provide context using similar companies within the same industry and the market median. (Lan, 2013)

Although Luby's has losses in the current year, a review of its sales shows erratic growth (see chart below). In the past five years Luby's Inc. has shown some promise with 42% growth in sales in 2011 and again with an 11.5% growth in sales in 2013. These rates were not consistently maintained (although positive) in the intervening years, providing cause for concern. Compared to its rivals, Luby's went from an enviable growth rate leader, to third place at a rate of 1.0%, compared to Cracker Barrels 1.2%. Considering scale, Luby's sale's growth represents $4.0 million compared to $39.0 million for Cracker Barrel.



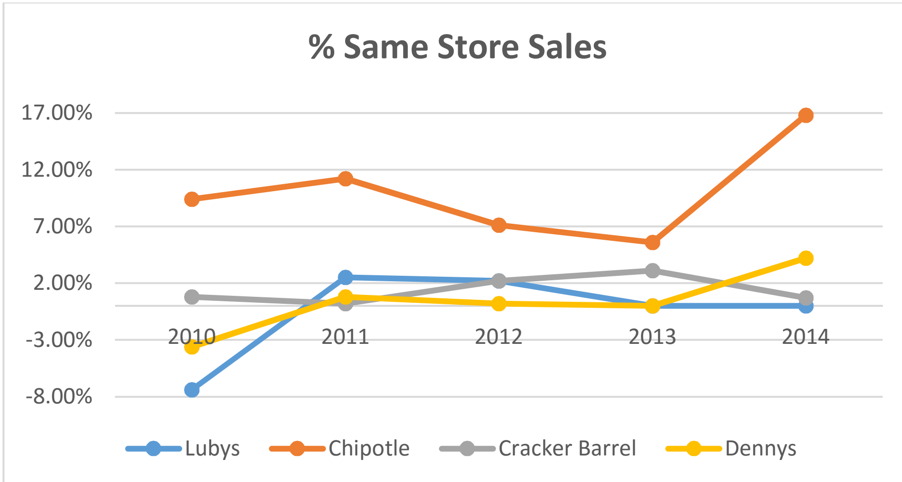
Net income, on the other hand, had significant fluctuations and shows a total decrease of 257% from 2012. The 2011 results may be misleading as well, since the 202.5% was achieved from recovery from a $2.9 million loss in 2010. Luby's has attributed its loss in 2014 to the increased cost of food as well as losses from the newly acquired Cheeseburger in Paradise brand, which is currently being restructured to obtain synergies, and eventually reach profitability. The cafeteria brand had income that remained flat in 2013 and 2014 (Luby's, 2015) and the company currently ranks last amongst its peers. The increasing decline in income growth (to negative growth) is disturbing and raises concerns of Luby's future performance.



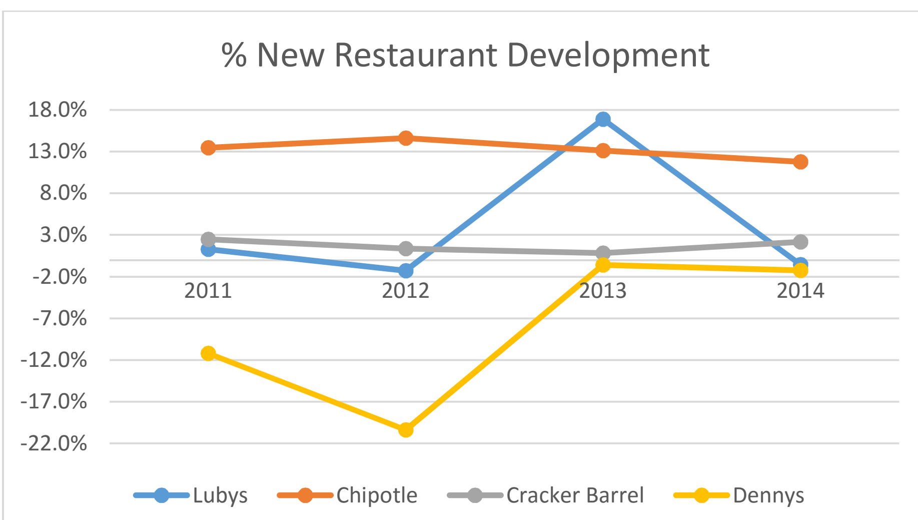
We turn to growth rates to determine whether Luby's strategy is growing shareholders' investment. Based on the results below, Luby's ranks a third out of the four competitors based on revenue growth. Net Income & EPS growth are negative and are not shown simply because the company has made losses in the current year. The dividend growth ratio is provided for comparison, although the company does not pay a dividend due to fluctuating performance.

To further paint a picture of Luby's recent growth, we turn to non-financial growth indicators, specifically Same-Store Sales and New Restaurant Development.

Same Store Sales for Luby's were flat for 2014 and 2013, despite growth from prior years. Compared to its competitors below, we see that it compared favorably to Cracker Barrel and Denny's until 2013, where same store sales became zero. Denny's was able to recover for the 2014 fiscal year, while Cracker Barrel performed better than the Company, despite its decline in 2014. For all years, we see Chipotle outperforming its peers.



New Restaurant Development is another indicator of growth as it provides a means of measuring company expansion. Comparing the number of restaurants being opened to peers provides a means of determining whether the company is gaining or losing market share. We use a percentage of restaurant development (new openings over prior year established restaurants) to provide scalability, however the use of the actual numbers of restaurant openings is also illuminating:



From the chart above, we can see that Luby's percentage of restaurant openings exceeded Chipotles in 2013, and has consistently performed better than Denny's which is currently closing stores. Cracker Barrel has steadier restaurant development over the period presented. From the table below, we can see that without scaling the results, Chipotle is the leader, followed by Cracker Barrel, Luby's and Denny's coming in last:

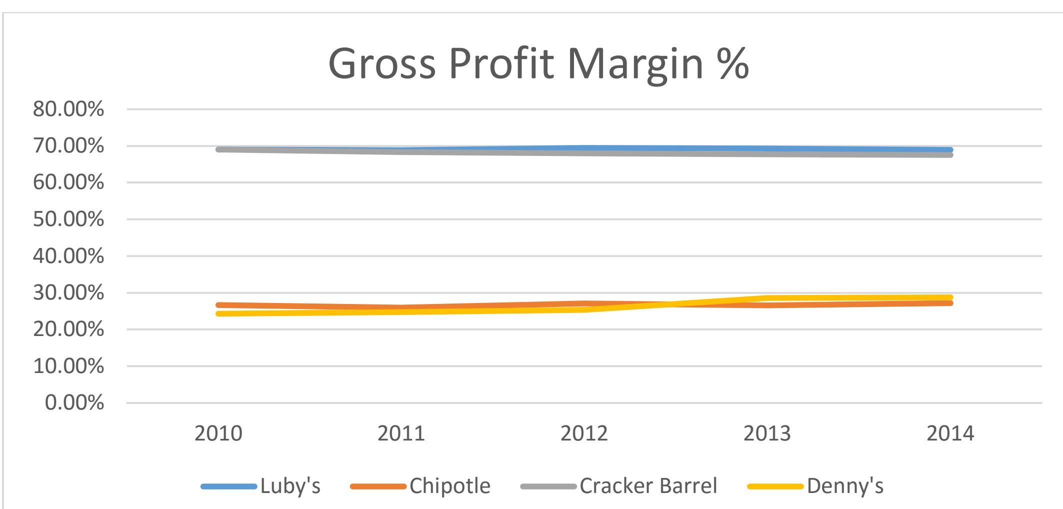
New Restaurant Development	2011	2012	2013	2014	Total
Luby's	2	-2	26	-1	25
Chipotle	146	180	185	188	699
Cracker Barrel	14	8	5	13	40
Denny's	-26	-42	-1	-2	-71

Based on financial and non-financial information, Luby's growth pattern **Needs Improvement**.

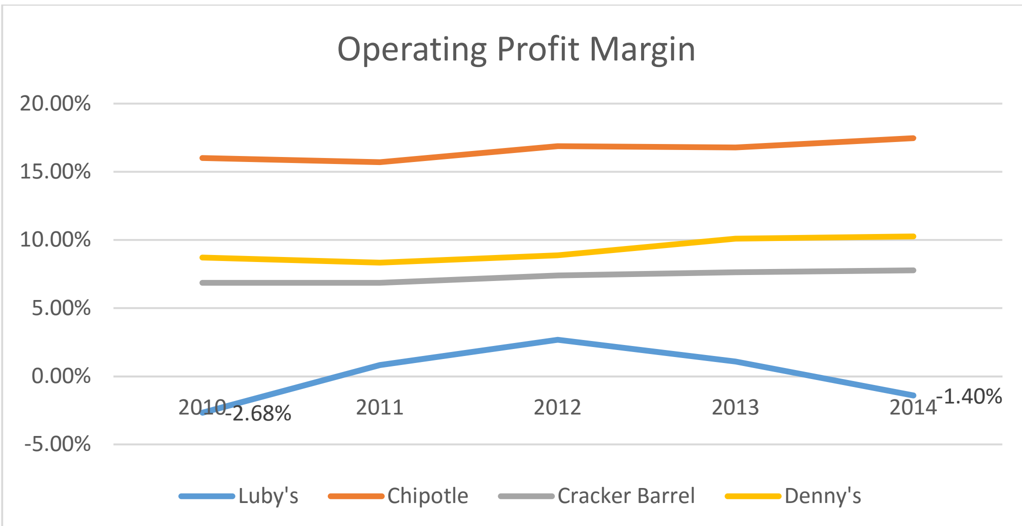
4.4.3. Profitability Analysis

Profitability ratios assess a business's ability to generate earnings compared to its expenses and other relevant costs incurred during a specific period (Investopedia). For most of these rations, having a higher value relative to competitors or historical performance is indication that the company is doing well (Investopedia). Hence, profitability analysis answers the question "Has the firm earned adequate returns on its investment?" We will look at Gross Profit Margin, Net Profit Margin, Return on Equity and Return on Assets.

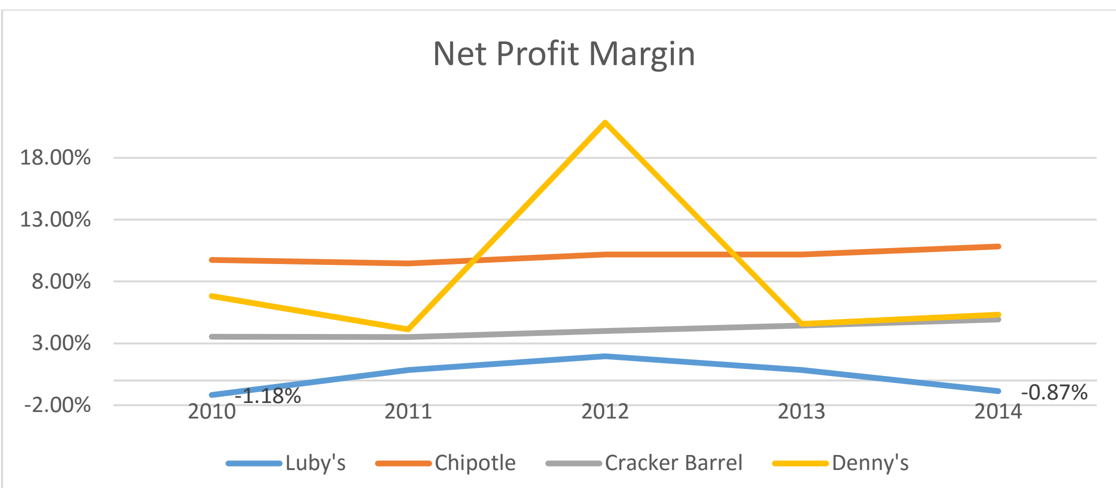
- Gross Profit Margin: The gross profit margin represents the percentage of revenues after related expenses (cost of sales). Interestingly, Luby's gross profit margin has remained consistent from a historical perspective, and similar to Cracker Barrel, a profitable competitor. (See MDA)



- Operating Profit Margin: Operating profit margin represents the percentage of revenues left after cost of sales and general administrative and operating expenses. While the operating profit margin has been on an increasing trend for all four companies being compared (due mainly to increased costs), Luby's current performance is poor in light of the brief recovery it made in 2012. (See MDA)

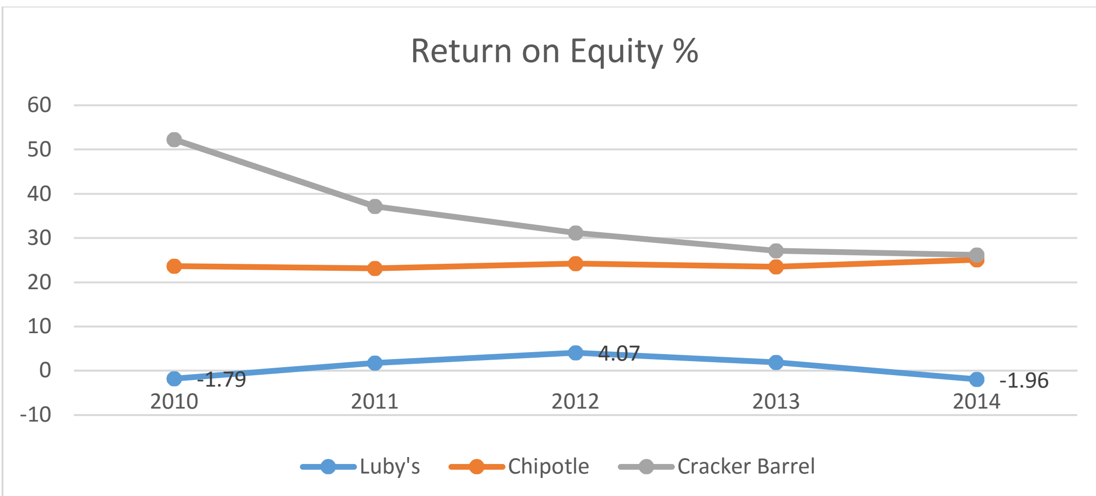


Net profit Margin: Net Profit Margin represents the percentage of revenues after all costs and expenses. Luby's net profit is on a declining trend from 2012, although its margin has not gone below 2010 results. (See MDA)



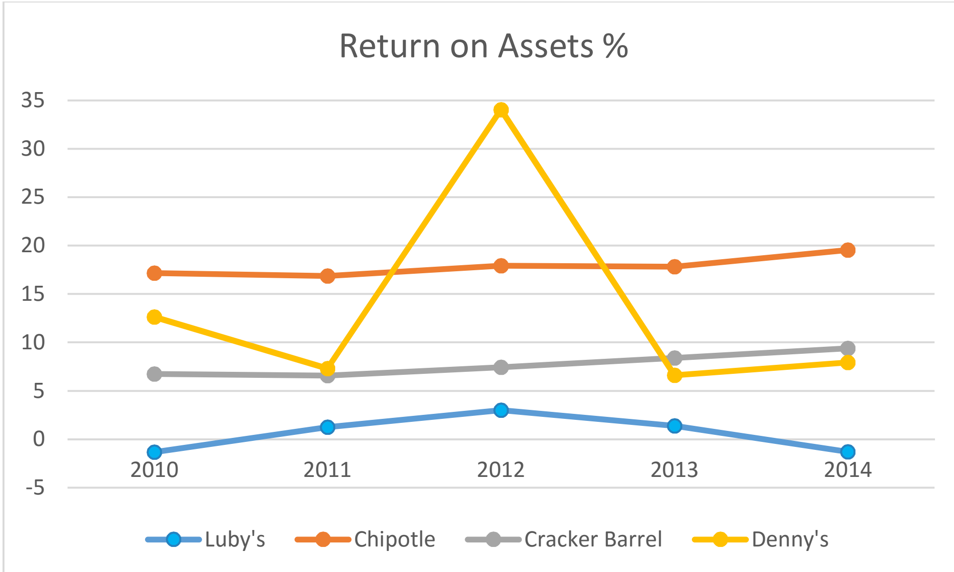
- Return on Equity ("ROE"): ROE, expressed as a percentage, is calculated by dividing Net Income (before dividends to common shareholders and after dividends to preferred shareholders) by Shareholders Equity. It measures the how much profit a company generates with the investment from shareholders. Generally, the higher the return on equity, the more favorable the profitability of a business. (Investopedia)

Luby's ROE has been below rivals' for the past 5 years and has been on a declining trend since 2012. Denny's equity was in the negative beginning in 2013 and is therefore not included in the chart below.



Return on Assets ("ROA"): ROA, also expressed as a percentage, is calculated by dividing annual earnings by total company assets. It gives an idea of how efficient management is at using its assets to generate earnings and is also referred to as Return on Investment ("ROI") in some instances. (Investopedia)

Luby's return on assets is lower than all competitors, is negative and on a declining trend. All indication that the company is inefficient in its asset usage to generate earnings.



In summary, we find Luby's declining profitability mitigated by its steadily increasing revenue in recent fiscal years. It claimed more than $394 million in revenue for fiscal 2014, up from the $390 million the company reported for fiscal 2013 and 350 million for fiscal year 2012. However, the company's net income decreased by 205%, to a loss of $3.4 million in fiscal year 2013 and 52%, to $3.3 million in fiscal 2012. The drop in net income was largely caused by uncontrolled expenses. Despite these facts, in light of the current loss of in Q1 2015, we consider the profitability to be Poor. See Hoover's (2015) profitability comparison below:

2014 Profitability

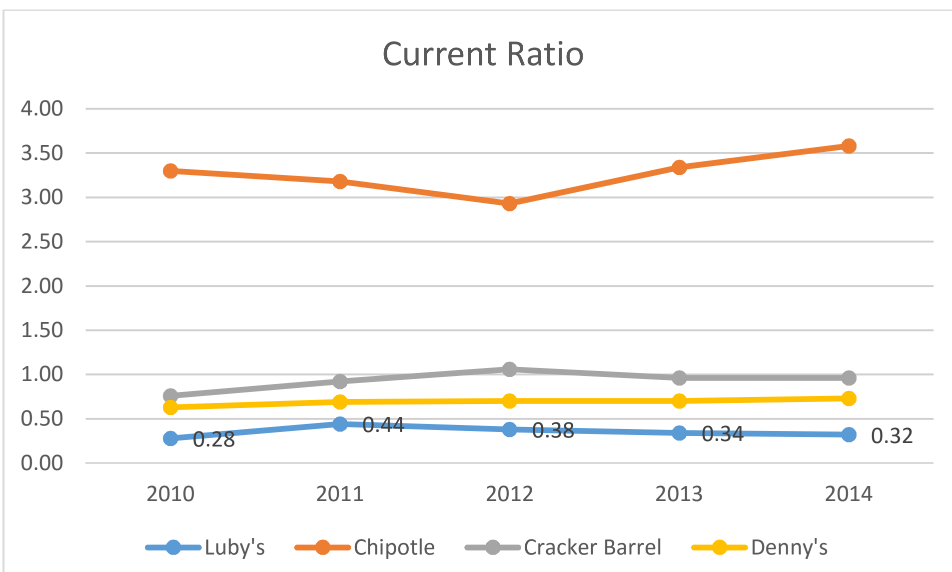
	Luby's	Chipotle	Cracker Barrel	Denny's	Industry Median	Market Median[1]
Gross Profit Margin	68.81%	27.21%	67.27%	28.86%	--	39.27%
Pre-Tax Profit Margin	(1.64%)	17.39%	7.72%	8.71%	--	6.84%
Net Profit Margin	(1.25%)	10.84%	5.37%	5.97%	--	5.75%
Return on Equity	(2.82%)	25.09%	28.16%	1,942.32%	--	6.26%
Return on Assets	(1.85%)	19.55%	10.50%	9.35%	--	1.92%
Return on Invested Cap	--	--	--	--	--	4.96%

4.4.4. Financial Strength Analysis

A company's liquidity, solvency and capital structure provide it with financial strength to execute its mission and out-perform its rivals. We measure Luby's short term liquidity using the Current and Quick Ratios, and its ability to pay interest on its acquired debt using the Interest Coverage Ratio. The company's capitalization, measuring its composition of permanent (Equity) or long-term capital (debt) is also examined using the Leverage and Total Debt/Equity Ratios. A healthy proportion of equity capital, as opposed to debt capital, in a company's capital structure is an indication of financial fitness. (Investopedia)

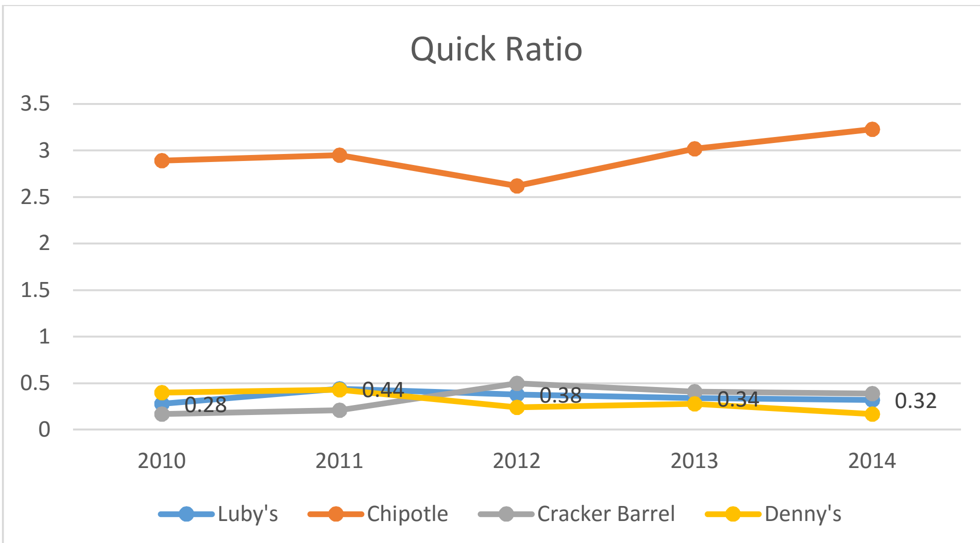
- Current Ratio: is a liquidity ratio that measures a company's ability to meet short-term obligations with its most liquid assets. . The ratio is calculated by dividing current assets by current liabilities. Generally, the larger the ratio, the better. (Investopedia)

Luby's current ratio has stayed somewhat consistent and below its rivals ratio, indicating that its ability to meet its short-term obligations may be in jeopardy.



- Quick Ratio: Similar to the Current Ratio, Quick Ratio serves as an indicator of a company's ability to meet short-term obligations with its most liquid assets, excluding the effect of inventories which may not be immediately convertible to cash. The ratio is calculated by dividing current assets (less inventories) by current liabilities. Generally, the larger the ratio, the better. (Investopedia)

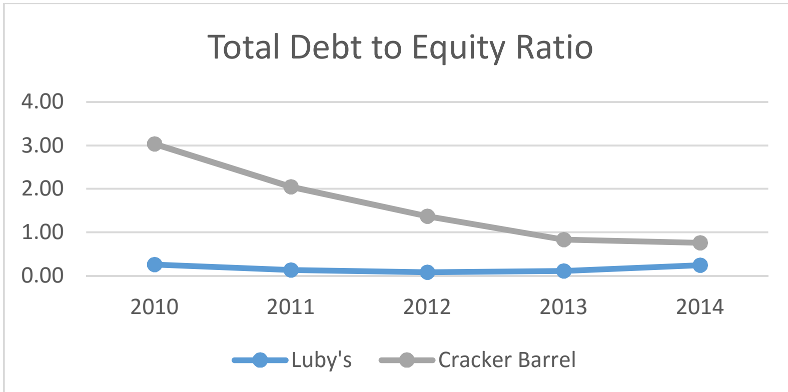
Luby's Quick Ratio is currently between Cracker Barrel and Denny's' and way below Chipotles. This indicates that liquidity is an issue, but since its rate is similar to two of its three peers, we have the impression that a low quick ratio is frequent for the industry.



- Total Debt to Equity Ratio: is the most well-known financial leverage ratio and is calculated by dividing Total Debt by Total Equity. A high debt/equity ratio generally indicates that a company has been aggressive in financing its growth with debt, which can result in volatile earnings as a result of additional interest expense, and may increase the chance of default or bankruptcy if unreasonably high. Typically a debt to equity ratio greater than 2.0 indicates a risky scenario (Investopedia)

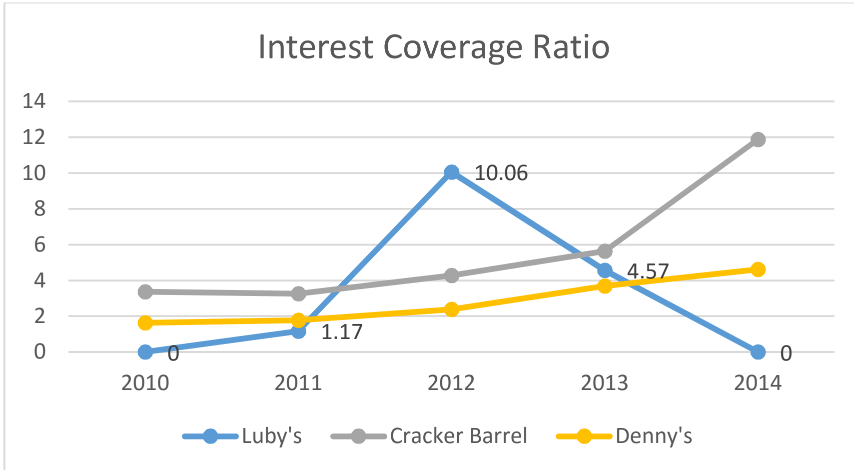
The company has maintained a low debt to equity that has risen slightly since 2013. Both Chipotles and Denny's ratios are omitted as Chipotle has no debt to speak of and Denny's equity is negative. The company's Total Debt to Equity Ratio is comparable to its LT Debt to Equity ratio since it none of its long term debt is due within the next year (i.e. Current Portion of LT

Debt is zero). As such with the only comparable peer (Cracker Barrel), we see that Luby's ratio is favorable.



- Interest Coverage Ratio: A ratio used to determine how easily a company can pay interest on outstanding debt. It is calculated by dividing a company's earnings before interest and taxes (EBIT) by interest expenses. The lower the ration, the more the company is burdened by interest expense. Should the ratio be 1.5 or lower, its ability to meet interest expenses may be questionable, and a ratio below 1 indicates a company is having problems generating enough cash flow to pay interest expenses. (Investopedia)

Luby's interest coverage ratio is at zero both for 2010 and 2014, when the company incurred losses. However the trajectory of the trend is a declining one. Compared to its rivals that are improving their ability to cover their interest payments. Chipotle's results are excluded as they are significantly higher than all the peers (i.e. >60 since 2010). Hence, although the company has the least debt compared to equity for its relevant peers (with the exception of Chipotle), it still may have problems meeting the interest payments that it does have.



When reviewing Luby's financial strength against all rivals, its standing leaves very much to be desired. In all positions, except Total Debt to Equity. Luby's placed lowest or not at all due to its 2014 losses. Also important is the comparison of Luby's financial ratios to the Market Median, to which it is consistently inferior. In the table below, we see the financial ratio results for the 2014 fiscal year and the Market Median. As such the financial strength of the company is considered Poor.

2014 Financial

	Luby's	Chipotle	Cracker Barrel	Denny's	Industry Median	Market Median[1]
Current Ratio	0.35	3.58	1.16	0.64	--	1.91
Quick Ratio	--	--	--	--	--	1.13
Interest Coverage	--	93.77	13.05	5.21	--	5.92
Total Debt/Equity	0.28	--	0.71	70.76	--	0.53

(Hoover's Online. 2015)

Based on the results of the analysis, Luby's liquidity and solvency is poor compared to rivals, but it has a favorable capital structure that uses more equity than debt.

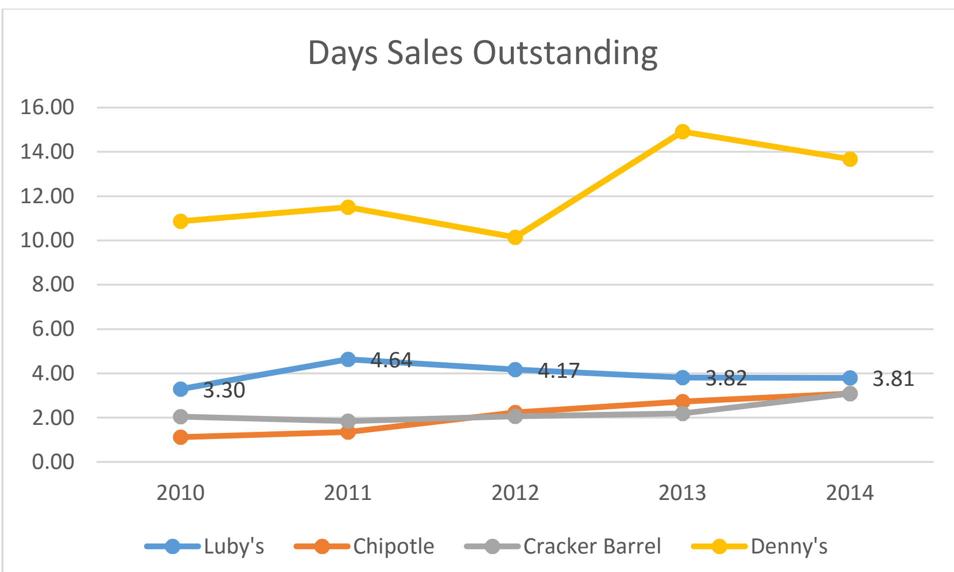
4.4.5. Management Efficiency Analysis

This section of our financial analysis evaluates how efficiently Luby's assets are utilized to generate and increase sales. These ratios include Days of Sales Outstanding, Inventory

Turnover, Days Cost of Goods Sold in Inventory, Asset Turnover and Net Receivable Turnover Flow.

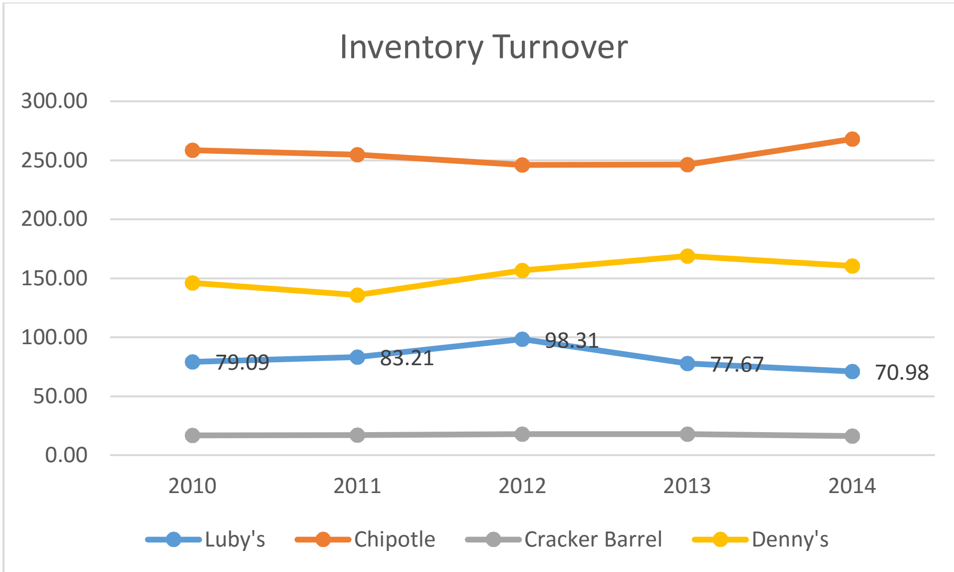
Days of Sales Outstanding ("DSO") is a measure of the average number of days a company takes to collect revenue after a sale has been made. It is calculated by dividing accounts receivable by the total credit sales, multiplied by the number of days. A low DSO shows that it takes fewer days to collect accounts receivable, while a high DSO shows that a company is selling to customers on credit and taking longer to collect money. (Investopedia)

Luby's DSO is very low since customers pay via cash or credit prior to eating their meals. As such, DSO represents the settlement activity of credit card companies to the company accounts. Despite the low DSO, the company still compares unfavorably with peers other than Denny's.

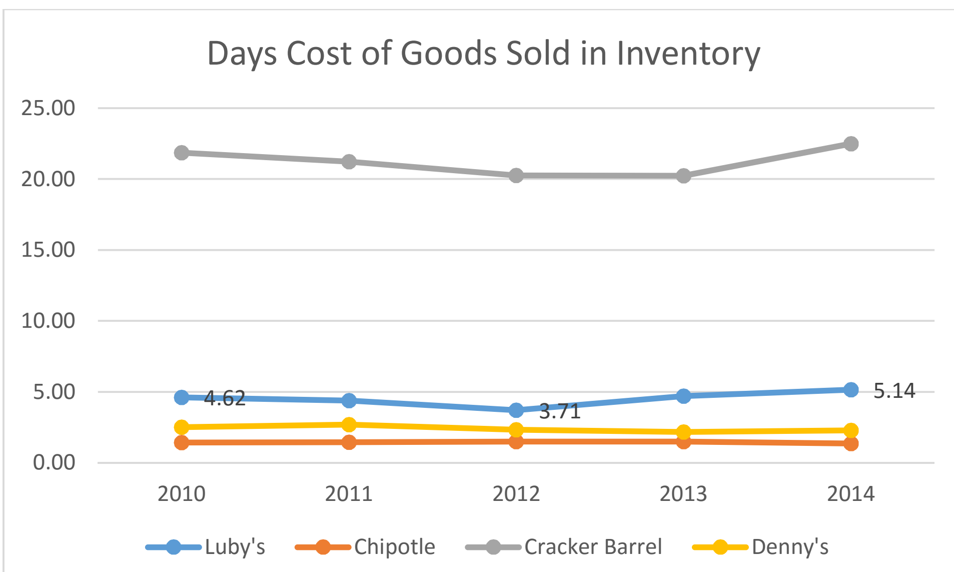


Inventory Turnover represents the number of times inventory is sold or replaced over a period and is calculated by dividing Sales by Inventory. Low turnover implies poor sales and excess inventory, while a high ratio implies strong sales or ineffective buying. (Investopedia)

When compared to peers, Luby's ranks third of four, with a declining profile for the past five years.

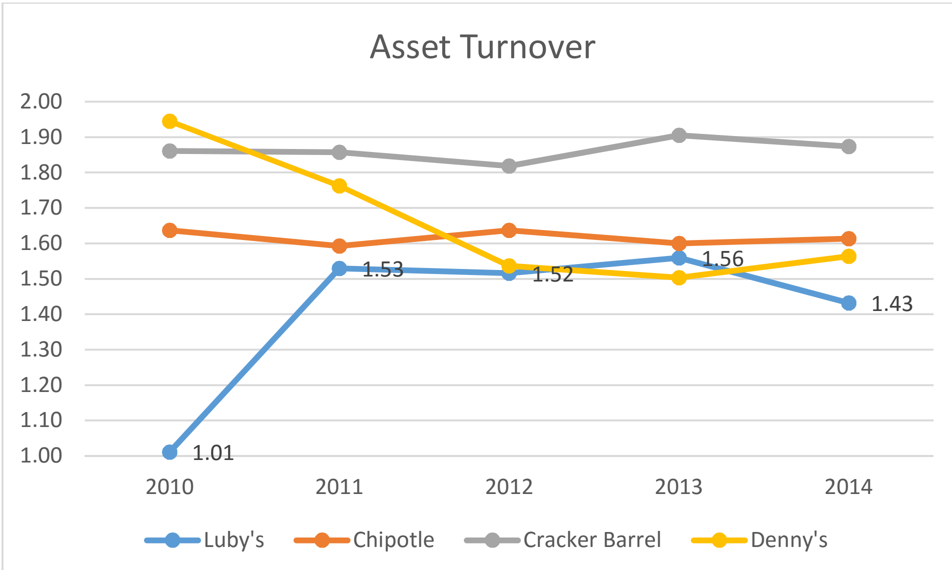


Days Cost of Goods Sold in Inventory, also called Days to Sell Inventory, measures how many days it takes to convert inventory to sales. It is calculated as 365 days divided by the Inventory Turnover Ratio. It provides an easier means of reference in relating the ratio to business activities.



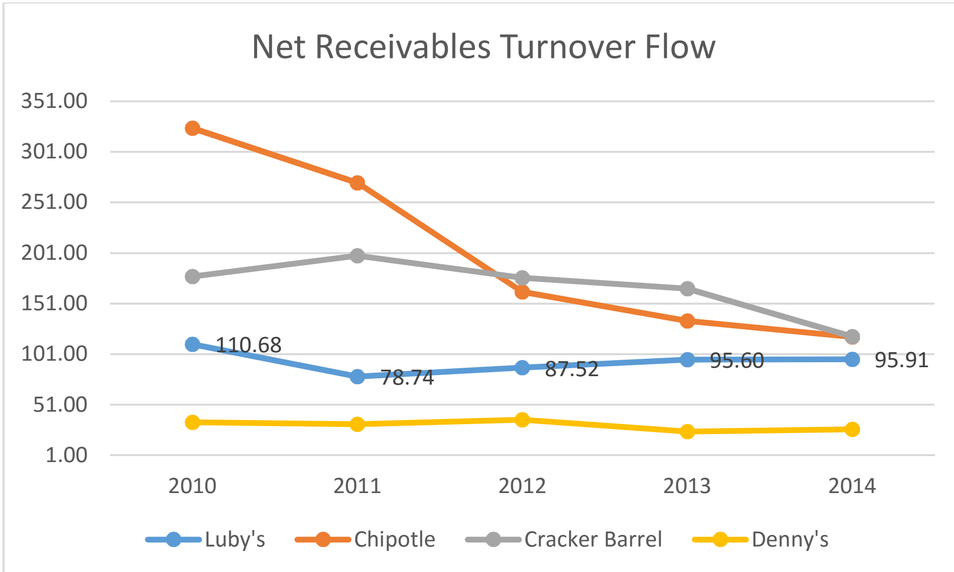
Asset Turnover is an indicator of the efficiency with which a company is deploying its assets, and is calculated by dividing Sales/Revenue by Total Assets. Usually, a higher ratio implies a company is generating more revenues per dollar of assets. (Investopedia)

Luby’s Asset Turnover is still the lowest of its peers. It made gains between 2010 and 2012 but has declined from the past fiscal year, implying that efficiency in asset deployment is on the decline as well.



Net Receivables Turnover Flow is an accounting measure used to quantify a firm’s effectiveness in extending credit to customers as well as collecting on debt. It is calculated by dividing sales by average accounts receivable. It can also be calculated by inverting the Days Sales Outstanding after dividing it by 365 days. A low ratio implies the company should reassess its credit policies to ensure timely collection of credits, while a high ratio implies that a company either operates on a cash basis or is efficient in its extension of credit and collections of receivables. (Investopedia)

Luby’s operates on a cash basis in relation to customers generally, and its ratio is on a slight incline from 2011. Compared to its peers, Luby’s ranks third of four, implying that a change in credit policy or higher efficiency in collections is needed.



When reviewing the most recent efficiency ratios, we note that the company is performing better than the Market Median but poorly compared to its peers. Historically, we see that the company is declining in efficiency in all ratios. Hence management efficiency is considered Average.

2014 Operations

	Luby's	Chipotle	Cracker Barrel	Denny's	Industry Median	Market Median[1]
Days of Sales Outstanding	4.44	3.10	2.64	11.77	--	49.93
Inventory Turnover	54.21	289.56	19.21	162.55	--	9.01
Days Cost of Goods Sold in Inventory	21.58	1.73	58.05	3.16	--	63.91
Asset Turnover	1.48	1.80	1.95	1.57	--	0.55
Net Receivables Turnover Flow	91.63	139.61	145.11	31.65	--	7.23

(Hoover's Online. 2015)

4.4.6. Summary of Financial Analysis

From the financial analysis above, we can see that Luby's has subpar performance when compared to its peers. Its valuation, profitability and liquidity ratios were analyzed and found to be Poor, rating third or last compared to its peers and below market median. Despite this, the company has a strong capital structure based on equity as opposed to debt, and management efficiency in using company assets are average. Based on these findings, Luby's strategy is not reaping superior results at present.

Expansion activities with mergers and new restaurants have resulted in high costs in liabilities, labor, and assets, along with the struggle of high supply and rising food costs. The company has lost money five quarters in a row and stock prices have fallen.

Ratio Category/Question	Rating
1. Valuation Analysis: Are the firm's managers creating value for shareholders?	Poor
2. Growth Analysis: Is the company strategy resulting in financial growth, expansion in market share, and new restaurant development?	Needs Improvement
3. Profitability Analysis: Has the firm earned adequate returns on its investments	Poor
4a. Financial Strength Analysis (Liquidity): How liquid is the firm? Will it be able to pay its bills as they become due?	Poor
4b Financial Strength Analysis (Capital Structure): How has the firm financed the purchase of its assets?	Good
5. Management Efficiency Analysis: How efficient has the firm's management been in utilizing its assets to generate sales?	Average
Comprehensive Financial Analysis: Is the company strategy reaping superior results?	No

5.0. Strategic Issues Analysis

Based on previous analysis of the external environment driving forces and industry key success factors previously delineated in sections 3.1.8 and 3.2.7, we turn to a discussion of their implications on Luby's strategy, and how its resources and capabilities can be deployed in light of these findings.

5.1. Critical Challenges

Critical challenges for a company may originate from the driving forces in the external environment, which may be political, economic, social, technological, environmental, or legal in nature, and from key success factors in its industry. Both factors require that the company adjust or completely change its strategy, if it is to survive or be successful. The driving forces in the external environment previously discussed in section 3.1.8 are (1) Changes in demography, (2) volatile commodity markets and (3) fluctuation in disposable income. The key success factors for restaurants are providing (1) Value, (2) Quality and (3) Convenience to the customer.

Changes in demography have a direct impact on customer preferences. Millennials (15 to 31 years old) consist of 21% of the population, and have a varied adventurous palette, prefer healthier foods, conveniently served and are heavily into technology. Unfortunately, they are less inclined to associate specific brands with comfort foods. Also, the growth in the Hispanic population, has made Hispanic dishes commonplace in the United States. In Texas, which borders Mexico, Tex-Mex is popular with its blend of Mexican and American flavors. This is of significance since Luby's is geographically concentrated in that State. Appealing to Millennials and the Hispanic community may mean introducing authentic ethnic dishes to its menu, or continually adding healthier options to its menu, while focusing more on using technology for customer interface.

The volatile commodity market is of concern to Luby's in particular since it makes all of its dishes from scratch. Hence, high commodity prices dictate that the company enter in to more supplier agreements, or search for economies of scale with a main supplier to keep its costs consistent. Even more important is the need to keep ingredients costs low as well as consistent. With its decentralized leadership structure, this may also mean having an approved list of vendors to ensure prices are acceptable and suppliers meet organizational requirements prior to order submission. This may slow down the ordering process initially, therefore a cost-benefit analysis would be useful.

Since restaurants have so many substitutes and are considered unnecessary expense, disposable income becomes a measure for customer buying power. During the 2008 recession, Luby’s did poorly simply because many were in financial straits, despite its “value pricing” and deals. Hence in periods of economic downturns, lowering prices, opening fewer restaurants, limiting restaurant hours or laying off employees may be needed. Hence, Luby’s ability to grow in those periods would be stunted. However, in periods of economic boom, raising prices would not work so well due to intense competition with rivals. However, the company may expand its menu, establish more restaurants, hire more staff and take initiatives to improve service during those periods.

There are three things that consumers consider when choosing between restaurants: value, quality and convenience. Luby’s dishes are not the cheapest, however it can convey the value of its menu to potential customers relative to its price. Tag lines emphasizing its “made from scratch” policy, including caloric content on healthy options and listing its value prices on its menu board can help in this area. Also important is figuring out the price points of its target market to ensure that the current price levels for its dishes or platters are below or at those price levels.

Quality is also important in being successful in a restaurant. All Luby’s offerings, both food and beverages, must be good quality and freshly made. Having food sitting under heat lamps for hours deteriorates its taste. Hence, it is important to gauge customer patronization correctly so that food is not sitting out unserved for long periods. Luby’s small batch process for its recipes works in its favor in this regards. Quality food comes from quality ingredients, which implies that Luby’s may need to pay top dollar for fresh ingredients. Also important are the presentation of the food, the cleanliness of the restaurant and even décor, lighting, seating to give ambiance and present dishes beautifully, and opposed to harsh lighting reminiscent of school cafeterias.

Finally, convenience is the last key. Luby's locations are located near residential areas and shopping complexes where there is a lot of foot traffic. The restaurants are also easy to get to and usually have ample parking and seating, so that customers do not have to worry about getting there and finding a seat after choosing their food. Different Luby's locations also offer TO-Go counters and Drive-thru for customers to pick up their food after ordering over the phone, and at the microphone on site. The drawback here is that each location differ in what it offers, since such decisions are at the discretion of the restaurant General Manager. The critical challenges are summarize below:

Critical Challenges	
Changing Demographic	**Driving Forces**
Volatile Commodity Markets	
U.S. Disposable Income	
Value	**Key Success Factors**
Quality	
Convenience	

5.2. Resources and Capabilities

Luby's has resources and capabilities (see sections 4.2 and 4.3, respectively) that may assist or deter the company when facing the critical challenges described in the previous section. The table below summarizes the strength of those resources and capabilities:

	Critical Challenges	**Resources & Capabilities**	**R&C Status Against Challenges**
Driving Forces	Changing Demographic	Home-made recipes, Geographic concentration, Target marketing,	Weak
	Volatile Commodity Markets	Access to revolving credit, ERP system, Supplier contracts	Strong
	U.S. Disposable Income	Target marketing, Everyday value pricing	Medium
Key Success Factors	Value	Target marketing, Everyday value pricing, Supplier contracts, Trademarks	Medium
	Quality	Home-made recipes,	Strong

	Critical Challenges	Resources & Capabilities	R&C Status Against Challenges
		Food made from scratch, Precise kitchen management, Trained staff, Supplier contracts,	
	Convenience	Real Estate, Cafeteria model, To-Go Counters, Drive-thru, Opening hours, Organizational structure	Medium

To determine whether the company is prepared to face the challenges, we analyze each challenge against the company's resources and capabilities, from which it derives its competencies.

- Changing Demographic

This challenge is of significant concern because the company's strategy seeks to attract a broad customer base. The changing face of the largest minority group from black to Hispanic has a strong influence on culture and food preference. Also important is the rise of the Millennials, who tend to prefer custom food options, ethically sourced meats, and farm-to-table experiences (Hoover's Online. 2015). They are digitally literate, prize convenience and are forecasted to reach a spending power of $2.45 trillion in 2015 and $3.38 trillion by 2018 (more than the baby boom generation) (Hoover's Online. 2015). Luby's focus on comfort foods using traditional recipes (read not for calorie counters), discounts to seniors (baby boomers) and families (Generation X), little digital customer interface or engagement, and poor information on sustainability in its supply chain, has left it out of sync with the new generation. The company's geographic concentration in the south where the Hispanic population is quite large, with few dishes to appeal to that segment has also made its response to this challenge a weak one. To mitigate this threat, Luby's must focus on understanding the eating behavior of younger customers, who as well as offer some Hispanic standard fare to appeal to both segments.

- Volatile Commodity Markets

The volatile commodity markets present opportunities for Luby's since it is able to negotiate favorable supplier contracts to make its ingredients cost a predictable factor. With its sophisticated ERP system that integrates inventory monitoring with its ordering system, and forecast demand, Luby's is able to anticipate adjustments to inventory and order supplies accordingly. With its access to revolving credit to meet unforeseen expenses, the company can reduce its borrowing during periods where commodity market prices are favorable. All these factors provide a strong basis to meet this challenge.

- U.S. Disposable Income

The company is subject to the vagaries of life as experienced by the consumer. As the restaurant industry is based on disposable income, patronage increases during periods of economic boom and decreases during economic downturns. With price sensitivity and intense competition in the market, Luby's cannot necessarily increase prices even when its customers are flush with cash. As such, the company must target specific segments of its market where cash is king. For seniors on fixed income and large families, discounts and free meal for kids goes a long way in attracting costumer during periods of hardship. Unfortunately, competitors do the same thing to a large degree, resulting in the company meeting this challenge at a medium level.

- Value

Conveying value to customers is of paramount importance in getting them to frequent a particular restaurant. Luby's offers everyday value pricing at different price points for price conscious customers. It also provides discounts to families and seniors in its target marketing efforts to induce them to visit the restaurant and increase same store sales. With supplier contracts, the company can prearrange favorable pricing for ingredients before they are needed, although this is on a restaurant by restaurant basis. These factors area mitigated by the fact that the company does not list the price for its a la carte items on its menu board, nor include caloric content for healthier options, nor does it emphasize its “made from scratch” in its restaurants or advertisements. With the absence of such simple ways to convey value and the lower price at fast casual competitors, the competencies and capacities of the company meet the challenge on a medium level.

- Quality

The company uses homemade recipes to make delicious food from scratch every day. It also manages its kitchens above and beyond food safety standards, ensuring that its appliances and materials lends itself to sanitation. With a trained staff and reputable suppliers that deliver quality ingredients, the company does an excellent job in providing quality food. The General Managers are trained to monitor and coordinate dish preparation to ensure that dishes do not sit under heating lamps for over an hour to ensure fresh tasting food. As a result, the strength of these factors are strong in the face of the challenge.

- Convenience

Convenience is also key in garnering patronage from consumers. Luby’s often buys the land and builds its restaurants from the ground up, allowing it a lot of latitude in selecting restaurant locations, which are established after extensive research by the company, and décor for ambiance. For additional convenience, the company offers drive-thru and To-Go counters for customers that are in a hurry. The only drawback to this is the fact that the organizational structure allows these services to be at each General Manager’s discretion. Most Luby’s also close by 8pm, which is early for younger consumers without school age children. The company also does not offer a digital or mobile applications for receiving orders for dine-in or out, which prove especially helpful during high-traffic times, nor does it offer home delivery, which are excellent means of providing convenience. Based on these offerings, we determine that the company meets convenience at a medium level.

5.3. Strength or Weaknesses Analysis

Luby's strengths are derived from internal competencies that can overcome and anticipate challenges, or make them irrelevant to the company's strategy. Weaknesses are those that internal resources and capabilities that do not surmount challenges. Hence, determining whether Luby's can handle the challenges successfully is key.

Challenges	R&C Status Against Challenges	Can Luby's handle the challenge?	Strength / Weakness
Value	Medium	Yes	**Strength**
Quality	Strong	Yes	**Strength**
Convenience	Medium	No	**Weakness**

Luby's is poised to handle the challenges related to delivering value and quality to its customers without any modification of its operations or strategy. Its resources and capabilities are geared towards those attributes.

However, Luby's will need to be make improvements in providing convenience. With more competitors in fast casual, providing quick service is of paramount importance, and the company has made very few moves in finding unique ways of meeting that challenge. Most restaurant chains now provide To-Go counters, although few provide Drive-thru service. Since these are still few and far-between in most Luby's restaurant, meeting the convenience factor is see as a weakness.

5.4. Opportunities or Threats Analysis

Luby's opportunities are derived from external environment factors that the company is poised to take advantage of. Those that cannot be made irrelevant to the company's strategy or overcome by organizational resources and capabilities become threats to its survival. Again, determining whether Luby's can successfully handle the challenges posed by these external factors is key.

Challenges	**R&C Status Against Challenges**	**Can Luby's handle the challenge?**	**Opportunity / Threat**
Changing Demographic	Weak	No	**Threat**
Volatile Commodity Markets	Strong	Yes	**Opportunity**
U.S. Disposable Income	Medium	Yes	**Threat**

There are two threats and one opportunity identified based on Luby's competencies. The changing demography directly influences customer preferences, which the restaurants' must have a pulse on in order to be successful. The lack of a niche food type (e.g. Italian, Mexican, etc.), coupled with its geographic concentration in Texas, which has an ever growing Hispanic population, makes Luby's susceptible to competition. Even with its target marketing, which yields results, the lack of appeal to a younger generation, Millennials specifically, is becoming a detriment. Mitigating this threat means adding dishes to attract the Hispanic market and improving its digital footprint with Millennials.

Also difficult would be an adjustment to decline in U.S. disposable income. Luby's prices are reasonable, but they are not cheap. During an economic downturn, the company may be forced to lower prices or offer more discounts to induce sales. With lower margins, survival is an issue since the company is not exemplary at keeping operating expenses low. Preparing for this eventuality implies taking a closer look at its menu to determine if the expensive dishes have an acceptable margin, and if not, what changes need to be made to the recipe or its menu as a whole.

Controlling operating expenses is also a necessity, especially in times of economic surplus so that the company can weather downturns.

The company has an opportunity present in commodity markets. With such volatility, it is possible to enter into hedging arrangements to fix the price of ingredients. The company could also contract with a main supplier to obtain economies of scale on long-lasting or dry ingredients like flour, rice, beans, etc. These may provide a means of keeping costs low and/or predictable for smoother operations and improved profits as a whole.

5.5 Summary of Strategic Analysis

In our dynamic SWOT analysis discussed above, we assessed the resources and capabilities in light of the critical challenges in order to determine their classification within the framework. See decision matrix below:

Dynamic SWOT

Tangible Resources	**Status**
Organizational Structure	Moderate
Real Estate	Moderate
Geographic Concentration	Weak
Credit Access	Weak
Technology (ERP)	Moderate
Intangible Resources	
Trademarks & Licenses	Very Strong
Trained workforce	Strong
Recipes	Moderate
Franchise agreements	Very Strong
Supplier Contracts	Strong
Catering Contracts	Very Strong
Capabilities	
Employee Training	Moderate
Precise Kitchen Management	Strong
Making dishes from scratch	Strong
Excellent Target Marketing	Weak

Critical Challenges	**SWOT**
Changing Demographic	Threat
Volatile Commodity Markets	Opportunity
U.S. Disposable Income	Threat
Value	Strength
Quality	Strength
Convenience	Weakness

Two main challenges are considered critical for Luby's based our analysis in section 5.3 and 5.4. Action must be taken to mitigate these threats and take advantage of the opportunities presented as follows:

Challenges	Opportunity / Threat
Changing Demographic	Threat
Volatile Commodity Markets	Opportunity

A contingency plan to manage the risk of the threats to Luby's, should they occur, is needed. Changes in demography occur over time, so the company has time to solicit customer feedback, research Millennial and Hispanic dining preferences. Once those are ascertained, Luby's can then look for ways to incorporate these preferences in its menu, décor, digital interfaces and so on. It is possible that such new offerings may attracting other customers outside the target market as well.

Managing volatile costs from the commodity market is a significant area where Luby's can improve its operating expenses to attain profitability once again. The company can take actions to identify the areas where expenses are high and take actions to reduce them, either through economies of scale, negotiation with suppliers, etc. Below is a depiction of the SWOT framework summarizing all the findings from section 5.1 to section 5.4.

Strengths	**Weakness**
Value Quality	Convenience
Opportunities	**Threats**
Volatile Commodity Markets	Changing Demographic U.S. Disposable Income

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7.0. Appendix

Appendix A. Ratio Analysis Tables

ROA % (Net)	2014	2013	2012	2011	2010
Luby's	-1.31	1.37	2.99	1.24	-1.33
Chipotle	19.55	17.81	17.92	16.88	17.18
Cracker Barrel	9.39	8.38	7.43	6.57	6.74
Denny's	7.94	6.62	34.03	7.3	12.63

ROE % (Net)	2014	2013	2012	2011	2010
Luby's	-1.96	1.88	4.07	1.79	-1.79
Chipotle	25.09	23.52	24.21	23.17	23.64
Cracker Barrel	26.17	27.13	31.17	37.18	52.25
Denny's	1240.97	AvgEqty<0	AvgEqty<0	AvgEqty<0	AvgEqty<0

Quick Ratio	2014	2013	2012	2011	2010
Luby's	0.32	0.34	0.38	0.44	0.28
Chipotle	3.23	3.02	2.62	2.95	2.89
Cracker Barrel	0.39	0.41	0.5	0.21	0.17
Denny's	0.17	0.28	0.24	0.43	0.4

Current Ratio	2014	2013	2012	2011	2010
Luby's	0.32	0.34	0.38	0.44	0.28
Chipotle	3.58	3.34	2.93	3.18	3.3
Cracker Barrel	0.96	0.96	1.06	0.92	0.76
Denny's	0.73	0.70	0.70	0.69	0.63

LT Debt to Equity	2014	2013	2012	2011	2010
Luby's	0.24	0.11	0.08	0.13	0.26
Chipotle	0	0	0	0	0
Cracker Barrel	0.71	0.83	1.37	2.05	2.99
Denny's	19.68	Equity<0	Equity<0	Equity<0	Equity<0

Total Debt to Equity	2014	2013	2012	2011	2010
Luby's	0.24	0.11	0.08	0.13	0.26
Chipotle	0	0	0	0	0
Cracker Barrel	0.76	0.83	1.37	2.05	3.03
Denny's	20.53	Equity<0	Equity<0	Equity<0	Equity<0

Interest Coverage	2014	2013	2012	2011	2010
Luby's	0	4.57	10.06	1.17	0
Chipotle	93.77	70.48	60.21	415.83	0
Cracker Barrel	11.87	5.64	4.27	3.25	3.36
Denny's	4.62	3.69	2.38	1.77	1.63

Gross Profit Margin	2014	2013	2012	2011	2010
Luby's	68.95%	69.29%	69.45%	68.84%	68.97%
Chipotle	27.21%	26.59%	27.11%	25.96%	26.66%
Cracker Barrel	67.48%	67.68%	67.93%	68.27%	68.98%

Denny's	28.74%	28.56%	25.33%	24.70%	24.27%

Operating Profit Margin	**2014**	**2013**	**2012**	**2011**	**2010**
Luby's	-1.40%	1.08%	2.68%	0.82%	-2.68%
Chipotle	17.47%	16.78%	16.87%	15.70%	16.02%
Cracker Barrel	7.77%	7.62%	7.40%	6.87%	6.85%
Denny's	10.26%	10.09%	8.87%	8.33%	8.72%

Net Profit Margin	**2014**	**2013**	**2012**	**2011**	**2010**
Luby's	-0.87%	0.84%	1.96%	0.85%	-1.18%
Chipotle	10.84%	10.19%	10.18%	9.47%	9.75%
Cracker Barrel	4.92%	4.43%	4.00%	3.50%	3.55%
Denny's	5.31%	4.57%	20.85%	4.14%	6.83%

Days Sales Outstanding	**2014**	**2013**	**2012**	**2011**	**2010**
Luby's	3.81	3.82	4.17	4.64	3.30
Chipotle	3.10	2.73	2.25	1.35	1.12
Cracker Barrel	3.09	2.20	2.07	1.84	2.05
Denny's	13.67	14.91	10.15	11.50	10.87

Inventory Turnover	**2014**	**2013**	**2012**	**2011**	**2010**
Luby's	70.98	77.67	98.31	83.21	79.09
Chipotle	267.95	246.44	246.14	254.63	258.65
Cracker Barrel	16.22	18.03	18.01	17.20	16.69
Denny's	160.57	168.98	156.64	135.86	146.00

Days Cost of Goods Sold in Inventory	**2014**	**2013**	**2012**	**2011**	**2010**
Luby's	5.14	4.70	3.71	4.39	4.62
Chipotle	1.36	1.48	1.48	1.43	1.41
Cracker Barrel	22.50	20.25	20.27	21.22	21.87
Denny's	2.27	2.16	2.33	2.69	2.50

Asset Turnover	**2014**	**2013**	**2012**	**2011**	**2010**
Luby's	1.43	1.56	1.52	1.53	1.01
Chipotle	1.61	1.60	1.64	1.59	1.64
Cracker Barrel	1.87	1.90	1.82	1.86	1.86
Denny's	1.56	1.50	1.54	1.76	1.95

Net Receivables Turnover	**2014**	**2013**	**2012**	**2011**	**2010**
Luby's	95.91	95.60	87.52	78.74	110.68
Chipotle	117.92	133.85	162.57	270.54	324.48
Cracker Barrel	118.20	165.89	176.62	198.26	177.72
Denny's	26.71	24.48	35.97	31.74	33.59

Appendix B. Store Information

Same Store Sales Growth	2014	2013	2012	2011	2010
Luby's	0.00%	0.00%	2.20%	2.50%	-7.40%
Chipotle	16.80%	5.60%	7.10%	11.20%	9.40%
Cracker Barrel	0.70%	3.10%	2.20%	0.20%	0.80%
Denny's	4.20%	0%	0.20%	0.80%	-3.60%

# of stores	2014	2013	2012	2011	2010
Luby's	179	180	154	156	154
Chipotle	1,783	1,595	1,410	1,230	1,084
Cracker Barrel	609	596	591	583	569
Denny's	161	163	164	206	232

New Restaurant Development	2014	2013	2012	2011	Total
Luby's	-1	26	-2	2	25
Chipotle	188	185	180	146	699
Cracker Barrel	13	5	8	14	40
Denny's	-2	-1	-42	-26	-71

% New Restaurant Development	2014	2013	2012	2011	Total
Luby's	-0.6%	16.9%	-1.3%	1.3%	16.2%
Chipotle	11.8%	13.1%	14.6%	13.5%	64.5%
Cracker Barrel	2.2%	0.8%	1.4%	2.5%	7.0%
Denny's	-1.2%	-0.6%	-20.4%	-11.2%	-30.6%

Appendix C. Revenue and Net Income Growth Data

Sales (In thousands)	2014	2013	2012	2011	2010
Luby's	394,381	390,350	350,097	348,748	244,933
Chipotle	4,108,269	3,214,591	2,731,224	2,269,548	1,835,922
Cracker Barrel	2,683,677	2,644,630	2,580,195	2,434,435	2,404,515
Denny's	462,593	488,363	538,534	548,466	608,103

Sales Growth %	2014	2013	2012	2011
Luby's	1.0%	11.5%	0.4%	42.4%
Chipotle	27.8%	17.7%	20.3%	23.6%
Cracker Barrel	1.5%	2.5%	6.0%	1.2%
Denny's	-5.3%	-9.3%	-1.8%	-9.8%

Net Income (In thousands)	2014	2013	2012	2011	2010
Luby's	(3,447)	3,285	6,854	2,965	(2,893)
Chipotle	445,374	327,438	278,000	214,945	178,981
Cracker Barrel	132,128	117,265	103,081	85,208	85,258
Denny's	24,572	22,309	112,287	22,713	41,554

Net Income Growth %	2014	2013	2012	2011
Luby's	-204.9%	-52.1%	131.2%	202.5%
Chipotle	36.0%	17.8%	29.3%	20.1%
Cracker Barrel	12.7%	13.8%	21.0%	-0.1%
Denny's	10.1%	-80.1%	394.4%	-45.3%