Management pratices at sonic corp. 18195

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SONIC CORPORATION INTRODUCTION BACKGROUND INFORMATION In 1953 Sonic Corporation was founded by Tony Smith in Shawnee, Oklahoma under a different name of the Top Hat. Tony Smith started the company as a drive-in restaurant featuring hot dogs, hamburgers, and french-fried onion rings. In the mid-50s Smith was asked by Charles Pappe for assistance in establishing a similar restaurant in a rural town also located in Oklahoma. This was the beginning of a partnership between the two men . CURRENT INFORMATION In 1991 Sonic Corporation was the fifth largest chain in the fast-food industry, servicing in the hamburger segment, behind McDonald s, Burger King, Hardee s, and Wendy s. Sonic has and is still carrying the tradition of being a high-quality franchise-based organization in the Sunbelt states. The following case will be broke down into five different stages beginning with early strategies, problems, new strategies, a ratio analysis, and a recommendation. EARLY STRATEGIES UNDER TONY SMITH Tony Smith introduced the Top Hat as a drive-in restaurant that reduced start up cost by not having eat-in space. This new restaurant featured drive-in stalls for automobiles, that were equipped with a two-way intercom enabling customers to order as soon as they drove in, opposed to conventional practices of waiting for a carhop to take an order. Delivery of the fresh fast-quality products was do to the unique design of the kitchen, and the use of carhops. Sonic Corporation preferred to do things as easy as possible and avoid sophistication. Another strategy Smith implemented was a collection of franchise royalties. This was done in a way such that Sonic franchise holders were required to purchase printed bags at an additional fee that Smith arranged through a paper-goods supplier. Pyramid-type selling arrangements were formed by franchisees in money making efforts by starting other

franchises through friends. This lead to original store managers having a percentage of their own store earnings and a portion of the new operation of the recruited friend manager. This idea further developed to multi-ownership of almost all Sonic operations as store managers were also part owners. This concept of pyramid-type selling carried Sonic forward with rapid growth. PROBLEMS RAPID GROWTH In the later-70 s almost one new Sonic store opened per day. The rapid expansion of Sonic was growing at an uncontrollable rate. With such rapid growth some stores failed. In these cases Sonic assumed control over failed franchise units, driving the number of company owned restaurants from 3 in 1974 to 149 in 1979. This rapid expansion of Sonic was a short lived frenzy which resulted in numerous failures do to lack of planning, market analysis, and requirements for unit managers. The company was forced to operate the failed franchise as company units in most cases, to protect the franchise name and reputation. A loss was posted in 1980 as Sonic began closing some operations. POOR MANAGEMENT Reason s for the closings were that the board tighten its control which created an operation that left no services being provided to the franchise holders, including no advertising cooperation s, no management training services, and no accounting services. In 1983 Smith decided to go outside the companies parameters and appointed a professional manager that had no ties to Sonic Corporation in any shape, form, or know how. Stephen Lynn was introduced to Sonic Corporation as president and chief executive officer. The new comer, Lynn, was granted the decision to form his own management team. This team was formed and implemented by mid 1984. By implementing his own management team Lynn could begin to take problems head on, after ridding the board members and franchise holders

that had significant conflicting interests that clouded the better judgement of Sonic. NEW STRATEGIES TURNING IT AROUND In an attempt to turn the organization around, Lynn and his newly formed management team set forth on a strategy that had three key factors: (1) attack problems concerning franchise attitude and Sonic s image; (2) improve purchasing; and (3) improve communications. Marketing was the key to nipping the attitude problem in the butt. To be successful three main issues had to be encountered: (1) the franchise owners and corporate owners had to buy-in to it; (2) the plan had to be simple enough to be executed; and (3) it had to provide visible evidence of working by improving profit for the owners. MARKET STUDIES To get this marketing program under way the team identified several marketing studies: (1) Sonic customers were of high frequency visiting on average twice a week; (2) there was a trend moving more and more to take-out orders opposed to eat-in orders; (3) Sonic had fresh high-quality products after the customer ordered; (4) the unique use of carhops set Sonic aside from the competition since most competitors served over the counter or through drive-by windows.

REACHING OUT A co-op program along with advertising also helped improve communication and relations between franchise owners. The company s strategies also reached out further as it offered annual conventions, provided training for managers, and training facilities with a test kitchen. The company went even further to offer help in areas of franchisees location sites and construction support to sales and profit improvement counseling. ENHANCING IMAGE Another strategy was to upgrade the stores appearances and improve energy efficiency. Most franchise owners purchased a retrofit

package that offered the mentioned upgrade features. These new designs generated an average of 20 percent increase in unit sales in addition to the overhead savings. TAKING CONTROL As these mentioned strategies paid off as it was reflected by profits increasing and operating units stabilizing. Lynn still had conflicting interests between board members that stood in the way of sound business decisions. This lead to the first leveraged buyout (LBO) as Lynn put his job on the line. The board rejected his first offer and came up with a counter offer, and Lynn accepted. With an option from the first LBO to purchase the shares of a joining party in the first LBO Sonic management decided to exercise that right. The total debt of the transaction was approximately $25 million, while the company was valued at a strong $35 million. However, do to deterioration between partnership and risk associated with the LBO, Sonic decided to go public on March 7, 1991, at an initial public offering price of $12. 50 per share. ANALYSIS RATIO S PROFITABILITY Operating profit margin (return on sales) has risen from . 170 in 1990 to . 220 in 1991. The major factor contributing to this increase is that sales in 1991 increased at greater percentage of profit s before taxes and before interest as compared to the 1990 figures. Another profitability ratio is return on stockholder s equity or return on net worth. This computation came out to be (. 181) and . 128 in 1990 and 1991 respectively. The reason for the big difference in numbers is do to the total stockholder s equity being negative in 1990. Also profit after taxes in 1991 were significantly higher than in the past years. In the past years Sonic Corporation had extremely high negative interest income numbers which were probably caused from loans at high interest rates. The reason for choosing these two ratio s were to show the before and after tax affects. LIQUIDITY The current ratio for 1991

was substantially higher than in 1990, 3. 185 and 1. 263 respectively. Two major contributions must be noted: (1) the current liabilities were lower in 1991 due to less short term debt; and (2) current assets were significantly higher by millions of dollars in 1991, because of an abundance of cash in marketable securities. This ratio indicates that Sonic has 3. 185 times the amount of current assets to every 1 of current liabilities in 1991. LEVERAGE The debt-to-assets ratio shows the extent of borrowed funds have been used to finance the firm s operations. In 1991 Sonic Corporation had a ratio of . 306 compared to 1. 164 in 1990. This indicates that Sonic has lowered its total debt and increased its total assets over the past year. This ratio also measures the risk that a company has in financing its debt. RESEARCH IN 1992 Research in 1992 shows that Sonics typical customer is female between the age of 18-24 with an average income between $10, 000-$15, 000. Forty-six percent of Sonics business was done during lunch hours, and 44 percent done during supper. Sonic s average meal price was $2. 25. CONCLUSION AND RECOMMENDATION Sonic Corporation is an ever improving company that is striving for efficiency, freshness, and quality. Over the life of the company management has always been trying to increase profits and taking steps into the future. Sonic Corporation also learned that in maximizing profits one must incorporate all the ingredients from attitudes of the mangers and owners to the products they offer their customers. In looking at the ratio s Sonic Corporation is looking stronger every year. I would recommend to keep management minds striving to new and better innovations that could again revolutionize the company as it had under the leadership of Mr. Lynn. In doing so the company assure itself and ever lasting life in the fast-food drive-in industry.