Michael Atkinson
Michael Autore
Philip Coriaty
Matthew Iannucci
Kyle Norwood
Brian Sokol
Background Information

- Name – Sonic Drive-In
- Founded – Shawnee, OK (1953)
- Founder – Troy Smith, Sr.
- Headquartered – Oklahoma City, OK
- CEO - J. Clifford Hudson
- Fulltime Employees – 18,200
- Type of Business – Fast Food Restaurant

Company Financial Report
(Fiscal Year Ending August 2010)

Revenue: $550,926,000
One Year Growth: (23.4%)
Net Income: $21,200,000
Income Growth: (57.1%)
America’s Drive-In
Over 3,500 Franchises

- Pull into stall of choice
- Order food over intercom
- Food delivered by carhop on rollerblades
- Carry over American experience to Australia
Company Plans and Goals

• 2-Year Goals
  – Annual Revenue
    • $57 Million
  – Employees
    • 18,570 FTEs

Difference

+ $3 Million
+ 175 Employees

• Gain international exposure
Why Australia?

• Company has zero international exposure making it wholly dependent on the U.S.

• Similar market to that of the U.S. (economy, culture, language)

• Will set up an international managerial branch to handle business duties
Structure of Company Operations:

Company CEO/ President
J. Clifford Hudson

Domestic Headquarters
Sonic Drive-In
(Oklahoma City, Oklahoma)

International Business Unit
(Melbourne, Sydney, Perth)

International Team
President
Vice President
Chief Financial Advisor
Director of Marketing
Human Resource Manager

8 Franchisers
16 Locations

Marketing
Finance
Human Resources
Business Strategy

• Main Goals
  • Maximize value of firm
  • Increase Profitability & Profit Growth
  • Owners and Shareholders gather returns
Business Strategy

- Increasing Profitability
- Increasing Rate of Profit Growth
  - Enter new market
  - Add value to products
  - Lower costs
Entry Strategy

• Franchising
  • Franchisee handles costs and risks
  • Builds profits quickly
  • Fast global presence for firm
Brand Image

- Sonics’ brand- American diner feel of the 1950s featuring classics and roller-skating carhops.
- Carrying over an American experience to a different culture
- Unique and interesting experience
- Source Effects-customers in a country do not respond well to products of foreign firms
Foreign Direct Investment Plan

- Sonic currently expands using Franchising
- Full or partner franchisee
- Sonic is built upon a strong owner/operator philosophy- owners are tied to profits
- Consistently portray the Sonic image- Staff, décor, operations
Budget and ROI

• 1\textsuperscript{st} year estimated expenses for food, payroll, operations and property - $3,584,107.57
• 3\textsuperscript{rd} year expenses - $9,761,789.28

• 1\textsuperscript{st} year budget - 5.5 million dollars
• 2\textsuperscript{nd} and 3\textsuperscript{rd} year budget - 3 million for each of the years in order to continue expansion and sustain the operations of the already existing restaurants.

• ROI year 1: -2.29\%, due to the high start up costs of entering into an entirely new market.
• ROI year 2: .52\%
• ROI year 3: 7.32\%. 
How is the plan measured?

• Return on Investment

• Increase in market share and number of franchises

• Continue to expand throughout the South Pacific
Cultural Differences

**Parent country**
- Religion - 76% Christian
- Education - public schooling
- Economics - GDP 14.7 trillion
  Unemployment 9%
- Family - median household income $50,233
- Language - English
- Geography - Coal, copper, lead. 4th largest country

**New Country**
- Religion 63.9% Christian
- Education public schooling
- Economics - GDP 1.2 trillion
  Unemployment 4.9%
- Family - median household income $66,820
- Language - Australian English
- Geography - Coal, copper 29% of worlds exports in coal.
  Country/island/continent
Family prices

- Currency conversion: USD $1.00 AU $.930126
- Large pizza: $8.00
- Big Mac: $3.60
- Can of beer: $2.50
- New Bike: $180
- Laptop: $1000
- Toothpaste: $2.50
- Popcorn in cinema: $5.00
- 1 week apartment furnished: $260
Employing our Business Unit

- Managers: 25.60%
- International Team: 6.40%
- New Hires: 4.00%
- Franchisees: 64%

SONIC
America's Drive-In
International Issues

- Sonic will face challenges in the process of opening internationally
- Need to transform proven methods to fit Australian needs and wants
- Long process of approving, licensing and agreements
- Taxes
- Currency
Key Laws and Regulations

- Government License/ Business License
- Minimum wage
- Safe Working Conditions
- Food Production Safety Act
- Australian Business Number
- Insurance – Company/ Employee
- Equal Hiring Laws
- Local Territorial Laws
Key Laws Continued

• Operating License
• Codes of Practice
• Standards
• License under a Company Classification
• Local Territorially Tax Laws
Other Key Considerations

• Competition – Competing with local established eateries
• Financial- Is it worth the investment?
• Labor Market- Will we find desired employees?
• Political- Are we on good terms with Australia?
• Economic- Is now the right time to go international?
Other Key Considerations

• Green Movement- Should we adapt?
• Adhering to local and country law
• Geographical- Evaluate our geographical positioning within Australia
• Labor Market- Need willing and motivated employee
• Is there a true need for Sonic in Australia
• Are there possibilities of expansion?
What we are looking for

• 16 franchises to start
  – 2 each per franchisee
• By 3rd year hope to have 30 stores
• Corn, beef, & oil from Australia
Costs

- $1 USD=92 cents of the AUD
- Franchise fee is about $45,000 USD or $41,408.55 AUD
- Investment price $710,000 to $3 million USD or $653,106.87-2,759,504.71 AUD
Costs

- Other fees include advertising around six percent and royalty fees around 4 or 5 percent. Additionally, according to Sonic there are some financial requirements to own a franchise (in USD):

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<thead>
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<th>Number of Stores</th>
<th>Liquidity</th>
<th>Net Worth</th>
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<tr>
<td>3 Stores</td>
<td>$1,500,000</td>
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<tr>
<td>5+ Stores</td>
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<tr>
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<td>5</td>
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<td><strong>Sonic Drive-In</strong></td>
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<tr>
<td>7</td>
<td>Arby’s</td>
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<tr>
<td>8</td>
<td>Jack in the Box</td>
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<tr>
<td>9</td>
<td>Dairy Queen</td>
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<tr>
<td>10</td>
<td>Quiznos Sub</td>
<td>2.29</td>
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</table>
Market Share

• McDonald's has about 780 restaurants
• Pizza Haven restaurant has 230 restaurants throughout Australia and New Zealand.
• Domino's Pizza that has 434 restaurants; that’s more than 50% of the market share
• Tremendous room for growth in Australia
• Competition not like the US
NYSE

• High of $25.02 per share
• Currently $9.80 (as of 4/27/11)
• Branching international will help grow stock to new heights.
Sonic International Expansion: Australia
April 22, 2011

Matthew Iannucci
Brian Sokol
Mike Atkinson
Mike Autore
Phil Coriaty
Kyle Norwood
Executive Summary

Sonic Drive-In is an American fast food restaurant chain based out of Oklahoma City, Oklahoma. With over 3,500 franchises based throughout the United States, Sonic has become one of the most dominant restaurants within the nation, serving millions of customers each day. Patrons are offered a variety of food and beverages, complimented with a fun and interactive atmosphere, while never leaving their actual cars. Sonic hopes to carry over this American experience to the international market, starting with Australia. The company has zero international exposure making it wholly dependent on the U.S. Entering the international market, offers a great opportunity for the company to profit exponentially.

Sonic will be able to provide a new and unique twist to the Australian fast food industry. This will allow us to distinguish ourselves in a crowded market, which will help to increase our market share rapidly. Our entry strategy into Australia will be franchising. Sonic has expanded through franchising successfully in the United States and will look to do the same in the international market. The opportunity to become a partner or full franchisee is available. We estimate that Sonic will need to budget 5.5 million dollars for the first year of this expansion, and in total will need to budget 11.5 million over the first 3 years. Though we anticipate a negative return on investment in our first year, we feel that by our third year we will have a return on investment of 7.32%. Sonic will also set up an international managerial branch that handles the duties of international expansion within Australia. The unit will consist of five experienced employees who will lead an international team through the troubles the company will face due to working in a completely different nation and culture.

Eventually the goal for Sonic Drive-In is to brand its’ name into an international corporation like its competitor McDonald’s. The current exchange rate between the United States and Australia is $1 US dollar is equal to about 92 cents of the Australian dollar. This allows for 8 cents profitability on every dollar opening up room for profitability from the start. The fast food market share in Australia is primarily controlled by Domino’s Pizza and McDonald’s, allowing for Sonics unique drive-in experience to have plenty of potential growth. The growth in Australia will allow Sonic to disband the ordinary molds of being just and American company to being a successful international company.

The success of the business internationally depends on the understanding of cultural differences. There are many international issues that our company will face in attempting to open up for business in a new location overseas. Sonic must obey minimum wage laws, standard working laws, food preparation and safety laws as well as many financial regulations and agreements needed to start a business of our stature within the international market. We will have to obey the local laws of Melbourne, Perth and Sydney as well. As a firm, we must make sure that we are prepared to participate in all of these regulations and standards. They do not come cheap however, they are all very expensive but since we have the capital to move overseas, we feel that it will be worth it for the company as a whole in the long run. We must also consider extra financial costs, a fluctuating economy, an unpredictable customer base as well as fierce competition. One of our largest issues will be competition. Australians already know what they enjoy on a routine basis; however, if we execute our plans properly, provide our classic products and make changes to adapt to the local needs and desires, we should be able to fit into this international market. Overall, we will face many obstacles and procedures before we actually open for business, but we are certain that it is worth the investment. We are hopeful that it will lead to an enthusiastic customer base that will enjoy the American variety that will now be available in Australia.
Parent Company Description:

Parent Company Highlights:

Name: Sonic, America’s Drive-In

Location: Oklahoma City, Oklahoma

Company Annual Revenue: Fiscal Year Ending August 2010:

- Revenue: $550,926,000
- One Year Growth: (23.4%)
- Net Income: $21,200,000
- Income Growth: (57.1%)

Number of Employees (FTEs): 18,217

Type of Business: Fast Food Restaurant, Drive-In

Purpose of Business: (What does the company do?)

Sonic Drive-In is an American drive-in diner and fast food restaurant chain based out of Oklahoma City, Oklahoma. With over 3,500 franchises based throughout the United States, Sonic serves millions of customers daily. It has become the most dominant drive-in restaurant within the nation and a top competitor to all fast-food restaurants. Sonic offers a variety of different foods, drinks, and deserts for all meals during each day complimented with a fun and interactive atmosphere. Customers park their cars, order their food over an intercom, and are delivered their food by a server on roller blades. Corporate hopes to be successful internationally by promoting the American drive-in experience to attract customers.

Parent Company Strategic Plan and Goals:

Describe what the company wants to be in 24 months (a 2-year view), and what its business results should be.

Company Annual Revenue: $553,926,00
Number of Employees (FTEs): 18,392
Type of Business: Fast Food Restaurant, Drive-In

What is the change between the present and the future 24 month goal?

Company Annual Revenue: + $3,000,000
Number of Employees (FTEs): +175 (International Employees)
Type of Business: Fast Food Restaurant, Drive-In
International Business Strategy of Parent Company

The actions that managers take to attain the goals of the firm are known as a business strategy. For most firms similar to our own, the main goal is to exploit the value of the firm for its owners and its shareholders. In order to maximize the value of the firm, the managers have to pursue different strategies that increase the profitability of the enterprise and the rate of profit growth over an amount of time. Profitability can be determined in a number of ways, but for consistency, it should be clarified as the rate of return that the firm makes on its invested capital, which is calculated by dividing the net profits of the firm by total invested capital. The other factor that needs to be increased is profit growth. This can be simply measured by taking the net profits and checking the percentage increase over time. With a higher profitability and rate of profit growth it will “…increase the value of an enterprise and thus the returns garnered by its owners, the shareholders.”¹ There are several ways in which managers can help increase the profitability of a firm. They can do this by following strategies that lower costs or by pursuing other strategies that add some value to the firm’s products, which will enable the firm to raise the prices. Then managers can focus on pursuing different strategies that sell more products in existing markets or entering new markets to help increase the rate at which the firm’s profits will grow over time. A key to this is expanding

2 Hill, Pg. 240
internationally can help managers boost the firm’s profitability and increase the rate of profit growth over time.\(^2\)

Global expansion allows firms to increase their profitability and rate of profit growth much more effectively rather than just domestic operation. International business allows a firm to expand their market and offer their products to international markets. It also allows a firm to create more value for their products and for the name of the firm itself. Companies usually begin to expand by taking their goods and services offered at home and selling them internationally. “The success of many multinational companies that expand in this manner is based not just upon the goods or services that they sell in foreign nations but also upon the core competencies that underlie the development, production, and marketing of those goods or services.”\(^3\) Core competence is the skills within a firm that competitors cannot easily match or imitate. These skills are primarily found within an actual product itself, but can be found elsewhere along the value chain. “Since core competencies are by definition the source of a firm’s competitive advantage, successful global expansion is not just based on leveraging products and selling them in foreign markets but also on the transfer of core competencies to foreign markets where indigenous competitors lack them.”\(^4\) The carrying over of the core competencies is essential for a firm to prosper internationally. A firm, however, still has to decide on which strategy to use within the market economy.

Entering a foreign market is no easy task. Each market has different governments, economies, polices and laws, along with many other factors to take into account. There are four different strategies for business within a foreign economy based on the pressure for cost reductions. The global standardization strategy focuses on increasing profitability and profit growth through the pursuit of a low-cost strategy on a global scale. Firms that use this strategy tend to not customize their product offering and marketing strategy. Customization requires a larger inventory and much higher costs. Instead of doing this, they would rather market a standardized product around the world so that they can gather the greatest amount of benefits from economies of scale and learning effects. This type of strategy is great for firms who are just entering the international market for the first time.

Once a company or firm has decided on how it will run its business within a foreign market, it has to decide on how it will actually enter that market. There are hundreds of nations within the world, all with different opportunities for global expansion. The choice of location will ultimately be based on the potential profitability within that nation. After the location has been decided on, the firm must determine at what time or when to enter. Some firms are attracted to places without any competitors and others prefer competitors so that they are sure that they will survive within the market. Next, the firm has to determine a specific entry mode.

There are six different modes of entering a foreign market: exporting, turnkey projects, licensing, franchising, joint venturing, and setting up wholly owned subsidiaries. Franchising

\(^3\) Hill, Pg 247  
\(^4\) Hill, Pg 247
is similar to licensing but involves longer-term commitments and contracts. The franchiser not only sells the intangible property but also maintains strict control over the business. This type of entry mode is very cost efficient and risk free although there is an inability to engage in global strategic coordination.

We have decided to set up 16 separate franchises in Australia. Franchising has many advantages for a firm that is very similar to those of licensing. First, the firm is reassured of many of the costs and risks of opening and starting a foreign market independently. The franchisee then assumes the typical costs and risks. This will then create a good incentive for the franchisee to build a profitable operation as quickly as they can. Using franchising as the key strategy, a service firm can build a global presence quickly and at a relatively low cost and risk.

**International Business Plan for our Business Unit**

**Market share**

Currently, Sonic Drive-In is one of the major contenders for the fast food market-share within the United States. Competing with companies such as McDonald’s, Burger King, Wendy’s, Jack in the Box, Dominos, Subway, and Yum Brands (which owns a variety of restaurants including KFC, Taco Bell, Pizza Hut, A&W, and Long John Silver to name a few). It is the largest drive-in in the United States, creating a unique fast food experience. In Australia, McDonald’s has about 780 restaurants while a Pizza Haven restaurant has 230 restaurants throughout Australia and New Zealand. By far the biggest fast food restaurant in Australia is Domino’s Pizza that has 434 restaurants; that’s more than 50% of the market share. There is no drive-in fast food experience in the country which will allow us to be unique but still profitable because there is a successful fast food market there to begin with.

**Brand Status**

Sonics’ brand is built on the image it aims to portray, which is the diner feel of the 1950s featuring American classics and roller-skating carhops. The unique way that Sonic operates helps to create. Sonics’ service helps to draw back customers because of its uniqueness and the entertainment it provides. Its brand is unmatched in the fast food industry, which differentiates itself from its immediate competition.

The image that Sonic aims to provide is part of the American heritage, so by going international we are carrying over an American experience to different regions that may not have an understanding for the brand. Our hope is that the makeup of the restaurant will be interesting enough for different cultures to enjoy and perhaps wants to learn about. Since Sonic advertises itself as an American restaurant we are going to stay consistent with that image, which means we may encounter source effects. Source effects occur when a receiver

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of the message evaluates it on the basis of status or image of the sender. Source effects can be hard to overcome when customers in a country do not respond well to products of foreign firms. Many firms attempt to overcome this occurrence by having their company relate more to the cultural and deemphasizing its foreign ownership. Products attempting to sell in another country have a hard time of establishing a credible and respected brand. An example of a restaurant successfully bringing over an image from another culture is Outback Steakhouse, who applies the “down under” theme to its décor and menu. We feel that we are taking a similar approach by entering into Australia. Customers will not only come for delicious food and drinks, they will come because they enjoy the unique American experience.

**Foreign Direct Investment Plan**

The international entry strategy for Australia and other future target markets is based on franchising. It is how Sonic expands currently, and how most other fast food restaurants expand into the international market successfully. Sonic will offer the chance to become the full owner of a minimum of two restaurants. Sonic also provides the opportunity to open up a minimum of two facilities as a partner with Sonic. The partnership consists of corporate owning 60% of the restaurant while the franchisee owns the other 40%.

One of the reasons that Sonic has relied on the franchise strategy is because Sonic is built upon a strong owner/operator philosophy. A franchised store gives the owner/manager equity interest, which provides an incentive for managers to operate restaurants profitably and efficiently. Sonic franchises the majority of its restaurants. Funding for opening new facilities requires the franchisee to provide the initial capital for equipment, signs, seating and decorations. The company’s responsibilities consist of obtaining long-term leases for the building of the restaurant and the land. These franchises generate revenue for the company through payment of rent, royalties based on sales, and initial fees. The company then avoids having to invest a significant amount of capital in its restaurants.

The partner or full franchisee will hire employees for his drive in restaurant. Guidelines will be provided to inform the owner what to look for, such as the type of traits of service providers that Sonic looks for. It is necessary that the facilities be staffed with employees that can accurately and consistently portray the Sonic brand. This is important because a large part of its brand relies on the commitment and energy of the staff. Sonic is famous for roller-skating Carhops, who are constantly on the go and have a commitment to excellent customer service. The typical staff member is energetic, social and has the ability to effectively operate in a fast paced environment. Putting together an effective team is vital to the success of the restaurant. An experienced human resource manager will be a part of the international business team and will guide each owner through the hiring process.

**Budget for first 3 years and ROI**

Our goal is to have a total of eight franchisors (made up of full and partner franchisees) within our first year. That will allow us at a minimum to open up 16 restaurants (2 per each franchisor), 6 will be located in or around Sydney, 6 will be located in or around Melbourne

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and 4 will be located in or around Perth. The rest of the restaurants will be located based on research of highly populated areas in Australia. We estimate that 12 out of the 16 restaurants in our first year will be fully owned by the franchisor, leaving Sonic with majority control over 4 of the restaurants.

In our second year in Australia we anticipate opening an additional seven restaurants, either through current franchisors or new investors. In our third year we estimate that we will have 29 total restaurants opened up in Australia. Our estimated expenses for food, payroll, operations and property are $3,584,107.57 for our first year, and $9,761,789.28 for our third year in Australia. Going into the first year of the international expansion project we believe Sonic should enter the project with 5.5 million dollars. For the second and third year Sonic should budget 3 million for each of the years in order to continue expansion and sustain the operations of the already existing restaurants.

In our first year of expansion into Australia we do not expect to earn any additional profit. Our estimated ROI for the first year is -2.29%, due to the high start up costs of entering into an entirely new market. The following year is when we expect to see profit growth, and our third year is when we expect to see a solid return of 7.32%.

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<th>Sonic - Australia 2014</th>
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<td><strong>Revenue</strong></td>
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<td>Company owned Sales</td>
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<tr>
<td><strong>Total Revenue</strong></td>
<td>$7,086,267.67</td>
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</table>

| Expenses              |                      |                      |
| Company owned Drive ins: |                      |                      |
| Food and packaging    | $1,180,492.31        |                      |
| Payroll and other employee benefits | $753,301.10 | $1,472,123.08 |
| Other operating expenses | $480,791.21 | $841,384.62 |
| **Total Cost of Company Owned Drive ins** | $2,414,584.62 | $4,840,907.49 |
| Company Owned and Fully Franchised: |                      |                      |
| Property and Equipment Cost | $1,169,522.96 | $1,608,094.06 |
| **Total Cost**        | $3,584,107.57        | $6,449,001.76        |
| **Income**            | $3,502,160.10        | $4,438,811.36        |
| **ROI**               | -2.29%               | 0.52%                |

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<tr>
<th>Sonic - Australia 2013</th>
<th>Sonic - Australia 2013</th>
<th>Sonic - Australia 2014</th>
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<td>Company owned Sales</td>
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<td><strong>Total Revenue</strong></td>
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</table>

| Expenses              |                      |                      |
| Company owned Drive ins: |                      |                      |
| Food and packaging    | $2,527,400.00        |                      |
| Payroll and other employee benefits | $1,472,123.08 | $1,582,180.22 |
| Other operating expenses | $841,384.62 | $1,220,241.76 |
| **Total Cost of Company Owned Drive ins** | $4,840,907.49 | $7,495,892.31 |
| Company Owned and Fully Franchised: |                      |                      |
| Property and Equipment Cost | $1,608,094.06 | $2,265,896.98 |
| **Total Cost**        | $6,449,001.76        | $9,761,789.28        |
| **Income**            | $6,482,294.40        | $10,476,122.87       |
| **ROI**               | 0.52%                | 7.32%                |
Who is responsible for this plan?

Throughout Sonics’ existence it has had zero exposure to the international market. Tapping into the international market with the current operators would not lead to a profitable transition because of their lack of experience. Our plan involves bringing in experts with a strong international business background and creating a small branch in the United States that is dedicated to successfully integrating Sonic into the international market. Though this will add to the investment cost we feel it will pay off and help smooth the transition and limit mistakes.

The unit will consist of five experienced employees who will lead an international team. The five employee titles will be president of international business, vice president of international business, Chief Financial Advisor, director of international marketing and international human resource manager. The rest of the unit will be filled in as needed. The purpose of this unit will be to evaluate potential franchisors to make sure that they will be suitable to successfully manage a restaurant financially and managerially. The unit will also be responsible for researching locations that would be conducive to a Sonic restaurant, as well as figuring out that best ways to market the American brand of Sonic to international customers.

How is the plan measured?

Like most business activity, the plan will be measured on return on investment. The success of the expansion will also be measured on our ability to rapidly grow in a new market, which will be shown by how well our market share grows. The success or failure of expansion into Australia will act as a gauge for further international expansion. Our ultimate goal is to continue to expand throughout Australia and into New Zealand within the next seven to ten years. Essentially, the plan will be measured on our ability to grow our market share, sustaining a positive return on investment and continue to expand throughout the South Pacific.

International Issues for Your Unit

When a company such as Sonic or a potential franchisee decides to expand into a different country, it is important to take every aspect of business, culture and brand image into consideration. It is also important to consider the economic, political and social climate of the area we are targeting. We would not want to invest in Australia if the economic health of the region is poor, if needed resources and customer capital is limited and if possible supply chain issues exist. The future of the intended region, including the possibility of political instability or a rise in regulations that hamper franchise growth are crucial aspects and must be taken into consideration as well.

What Key Laws for your selected country have a significant implication?

Our company will be faced with many laws while we try to open up on an international scale. We must follow the federal and local laws in order to fit in with the culture and abide
by the local standards, rules and regulations. Australia is known for its efficient and strong economy. We feel that there is a need as well as a customer base that is interested and prepared to take an interest in and buy our product.

In order to set our company up for international business, we must look at some laws and other considerations in order to survive in our desired business location. We will follow minimum wage laws as well as standard working condition laws. We will provide benefits to employees where applicable and create reward incentives for bringing in high returns. This will be an extra incentive for employees to perform. The laws previously stated will ensure that the company is covered when paying employees and allowing them to work on the premises. Since we plan to make over $75,000 a year, our company will have to register for goods and services taxes. Since we are doing this, we have to also register for an Australian Business Number. We will need to obtain a state government licenses in order to become an approved business which gives us permission to operate our business to the capacity that we expect to bring into Australia. At the same time, we will also need to meet council permits and requirements.

In our effort to find the best location for our place of business, we will need to make sure that local residents are content with our business location. In this case, we will need to follow local zoning laws and comply with sound regulations since our company is expected to bring in heavy traffic. Our company is used to following strict guidelines and regulations in the United States. We are positive that we will have no problem adapting to Australia’s food, safety and business practice regulations. Australia’s stricter laws originate from various food production safety acts created and released in 2000 (reprinted for use in 2011). We must seek out the appropriate business licenses and make sure that we are welcome within the communities we are trying to enter. There are some international countries that have problems with the United States and what it has come to represent, so we want to make sure we are on good terms with the residents who live close to our location and respect the products and services that we will be providing. Without this important element, the company can face major issues which can end up affecting us negatively and force the company to lose money over time. If this occurs, our investment within the international market would not be worth it.

Australian laws require that the company has insurance as well. Australia’s guidelines are clear and strict. For example, an excerpt from the Australian food and Production Guidelines states that “an accreditation holder must take all reasonable measures to ensure a seafood handler at the holder’s seafood premises exercises personal hygiene and health practices at the premises that (a) are appropriate for managing the food safety hazards relevant to the production of the seafood; and (b) do not adversely affect the acceptability of the seafood. A company can receive a twenty point maximum penalty.”^7^ We must find a company to insure every business operation and liability that we are responsible while we run our company. We must follow the guidelines and regulations to the fullest to avoid trouble and customer dissatisfaction. It would also be beneficial for us to open up a line of credit even though we may not need it. If Sonic restaurants are not doing well as a whole, but we want to open another location in Australia, we will have a record of proving that our Australian locations may be doing well enough to open up future stores to make up for profits that may possibly be plummeting in the United States for various reasons. We have to have things like

this put in place in case the economy drops, interest in the United States falls or if our numbers are just not adding up on the bottom line.

**What other key considerations have a significant implication?**

Our firm plans on opening some restaurants through franchising. The potential investors for these firms will need to consider income tax, capital gains tax, and transaction taxes in the regions of certain firms. Bilateral treaties also exist between Australia and other countries that should be considered by foreign investors. The firm must also respect Australian holidays, hours, common safety requirements and other common beliefs. The firm will also need to coincide with Australia’s environmental laws. Our firm will be emitting pollutants and we are committed making a continuing effort to embrace green business practices. When complying with environmental laws, we must obey them on the local, territorial and country level. Our business has proven itself successful within the United States, but it is a whole new market and customer base. At the same time, we must also deal with other issues that may have an impact on us other than just a new market base.

For the most part, Sonic requires that all of their franchisees are planted in areas where one would desire to work. Although this how Sonic has operated in the past when considering new restaurant locations, it is also important to seek out opportunities wherever they exist. Our location will affect our demographics and workforce so it is important to seek out opportunity. For example, if a potential investor looking to join one of our franchises, he would like to have a say in where it is located, who will be hired and if the location is convenient for the individual since they would be a part owner. Since our potential locations will be opening up in Australia, the owner must live there in order to be qualified to own and operate the business. We are considering opening in a large city with a high population of young people who may be interested in working in the food service industry. It may be beneficial for Sonic to open a restaurant in an area surrounded by many colleges so that we will always have qualified employees who are actively seeking out work.

From a financial perspective, the act of building a restaurant and paying the franchise fee will cost around $750,000 to $3,000,000. Sonic does not offer financing since it could possibly put their active assets into debt, but our financial department can put investors and potential franchisees in touch with lenders that finance such quantities. Sonic has built a large amount of capital over time, so naturally we would be able to use this capital to open our own restaurants without the red tape of financing. However, we require potential investors to go through financing in case a deal or agreement falls through last minute. This way, Sonic is covered and so is the buyer. There would then be a record of the transaction and through financing, Sonic may be able to help out along the way if an issue pops up. In order to be considered a Sonic franchise, you will have to have a large amount of restaurant experience. As far as regulations are concerned, you will need to have a total net worth of at least $1,000,000 and you also must possess liquid assets.

Economically, “Global growth will be pretty solid in 2011 and 2012 according to National Australia Bank Head of Industry Analysis Dean Pearson at the Franchise Council of Australia breakfast, held in Brisbane this morning. While Australia will see growth coming
back this year, the big growth is in China, India and Latin America, which will offset the
developed world." This shows how it is a good time for our company to enter the Australian
market with our restaurant experience. As the economy grows, people will be more open to
use their disposable income to dine out and try something new. Since sonic is the classic
American drive in experience, it is a great time to capture the Australian marketplace and
interest while the economy is showing positive signs of growth.

We have to consider if the area you are thinking of opening in is politically secure. Certain areas of the world have political unrest which would not even be a
consideration. Australia would be a good choice here because America is in positive regard
with the country and we share similar beliefs. No tension exists between so this is a good
opportunity to expand the business.

Although we are under the impression that we have a quality proven product that we
expect to successful, we must be wary of the new international market that we are entering.
Saul Eslake, a former chief economist who has worked at ANZ for Melbourne's Grattan
Institute, is aware of the influence that the United States has on Australia. He states, "From
the perspective of a casual observer, some companies obviously come here and think that
Australia is so like America that they don't need to modify their product." Eslake says, "In the
same way... the Starbucks coffee culture that worked very well in the US, it didn't catch on
here, where the cafe culture has a more European dimension to it." This shows how we must
take the time to research what area will have the most interest in an American drive-in
experience. If we do not, we will be forced to take a loss and may be forced to close our
business due to lack of interest and customers. This just demonstrates the problems that exist
when trying to move in on a new culture. Although our product follows strict company
standards and regulations, it may be beneficial for us to alter our products and experience to
fit a more local Australian culture. We do not want the customer base to feel removed from
their culture, but we want them to experience a part of American history while also offering
food and service that natives will truly appreciate. We have learned from the text that, “The
values and norms of a culture do not emerge fully formed. They are the evolutionary product
of numbers and factors, including the prevailing political and economic philosophies, the
social structure of a society, and the dominant religion, language and education.”

We must be aware that we will face issues of culture and norms that we were not informed about since
culture becomes visible to us in sections. Once we become acclimated to the culture and fully
immerse ourselves within it, we will then understand the ins and outs of the culture, which is
what we are ultimately looking for to improve our business practices.

One obstacle that will stand in the way of opening our business internationally is the
continuing effort to cut back on fast food. There have been various organizations and
individuals speaking out who would like to eliminate fast food and substitute it with healthier
choices. IBISWorld Australia senior analyst Naren Sivasailam believes that there is no doubt

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9Charles W.L. Hill. *International Business Competing In the Global Marketplace.* Pg. 92. New York: McGraw-
the health and wellbeing movement has contributed to the recent difficulties being felt by some takeaway food businesses. He states, "Australians are much more aware of issues such as obesity and their health and the causes of heart disease and Krispy Kreme has been one of the victims of that. He also states, "What was traditionally considered a fast food snack has moved on from being a burger and chips to a salad and sushi. "Then you've got the whole organic food, fair trade, and sustainability movement. It translates into an increased awareness of food sourcing and ethics and the impact of food choices on the environment."\(^\text{10}\) Although our product does not have a high involvement with these offerings, it would be beneficial for our company to shift some of our practices in order to get on track with becoming a green business. Today, it seems that if there is a new business or startup being introduced, they recognize the need for offering healthier food selections while also promoting green business practices.

Our company represents a classic dining experience from yesteryear. It represents a nostalgic time while mixing new food arrangements. We offer eat- in and car hop service via employees on rollerblades. It is a fun, unique experience, which our past customers have enjoyed. Although we will face local competition from smaller eateries, we are positive that we will meet our business goals and outrun the competition. We have the financial stability as well as a fully developed, successful name brand that we hope will carry overseas with us. 96% of all business in Australia consists of small businesses. The remaining 4% represent large corporate firms that can have the capability of swaying the market. We will be joining the 4% and hope that we can eventually prove ourselves in this international market. The food found on our menus is commonly described as being very tasty and satisfying while maintaining low prices at the same time. We expect this formula to work to our advantage while providing the consumer with what they want, while also taking it easy on their wallets at the same time.

**What are the Key Differences between the Parent Company and Your FDI Region?**

For our business to be successful we will have to understand all the cultural differences between the United States and Australia. Operating a Sonic in Australia varies from operating a restaurant in the United States. Specific styles of work and managing will have to be changed according to the change in culture. There are certain aspects that can really affect the company such as if its high context or low context, also what religions, languages, and the state of the economy. Family values can also play a part in the food industry.

Religion and education are two issues that should be examined before moving a company. Since we are trying to open a sonic franchise in Australia, we have to look at what the differences are between Australia and the United States. Sonic is a successful business in the United States so it will be good if most of the cultural aspects matchup between the two countries. The religions and education between the United States and Australia are similar. Seventy six percent of the United States are Christian and the second highest percent is thirteen and that is for non-religion. In Australia there are sixty four percent Christians and

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eighteen percent non-religion. This is good because some religions have certain rules against pork and other meats. With Australia being mostly Christian we will not run into many religious issues for Sonic. Education is also the same in Australia as it is in the United States. They both offer public schooling and schooling from age five to eighteen is compulsory. Australia also has universities for after college.

Another culture difference that could affect us are economics and politics. The GDP in the US is fourteen trillion and the GDP in Australia is one trillion. This tells us there is a lot more money coming in and out of the United States then Australia this could hurt us for sales when opening a Sonic in Australia. The market for selling food will be smaller then what sonic is used to. One benefit is Australia has a much smaller unemployment rate which means the percent of people with jobs is higher in Australia then in the United States so maybe more people will be willing to spend money eating out. We will be providing for a lot less people in Australia but we do not think this will hurt us much because we are not opening nearly as many stores and we are only opening stores in the three main regions of Australia.

Next on the list of key differences will be languages and families. There is no official language of Australia. Most people speak what they call Australian English. This is for the most part the same as our English language, but their accent is different along with some words that come from Australia. This will work out well because it eliminates having to translate menus and advertisements. Whether it’s the store employees, menu or corporate it is a lot easier to make a transition with the same language. The families in Australia can be compared to families in America. The average American household income is around fifty thousand dollars. The Australian household income is even more at around sixty five thousand. Also Sonic will not have to change their prices on the menu much because the currency exchange rate is almost the same. They use the same type of money system as we do. For example they have one hundred, fifty, twenty, ten, five, and one-dollar bills. Their dollar is worth about five cents less than our dollar. Some examples of products show that prices in America are comparable to product prices in Australia. For example, a laptop is around one thousand; a beer is three dollars, a “big-mac” at three dollars and sixty cents, and toothpaste at two dollars and fifty cents. All in all the similarities in culture factors will allow our Sonic in Australia to have a smooth transition. There are few differences that can really impact the Sonic transition into Australia.

**International Business Plan for our Business Unit -Graph**

Our international business plan involves adding 175 new employees to the business within the first year of expansion. The graph below shows how the 175 new employees will be broken up. There will be eight franchisees, 44 manager hired by the franchisees, 11 members of the international team (five of which will be expatriates), and 112 employees. The five expatriates will be sent to Australia to form a team that can carry over the expectations and knowledge from the United States. By the first year we expect they find six employees to work apart of the team. The goal is to have natives of the area take over the entire international team so that the five expatriates will only have to oversee the operations, allowing them to be stationed back at the US headquarters. We do not anticipate this happening until the companies third year in Australia.
Success for International Business Activity Metrics for Your Business Unit

What are the overall performance criteria for the international business plan? Outcomes/business results- what are we looking for

The overall outcome and result we are looking for is to have at least sixteen Sonic Drive-In franchises up and running to start; that is to have each franchisee open at least two locations. Our goal is to grow the Sonic Drive-In name into an international corporation like its competitor McDonald’s. By our third year we hope to have about thirty stores located throughout Australia where we hope to surpass our other fast food competitors there.

Sonic depends on its agricultural dimensions immensely, specifically corn, beef, and oil. In the United States, prices of all have risen drastically in the last few years, urging executives to look for other alternatives. Especially oil because it is used to make the food and ship it wherever necessary. In Australia the corn, beef, and oil would be taken locally to save from shipping prices and to make good relationships with Australian nationals.

The costs

According to xe.com, the current exchange rate between the United States and Australia is $1 US dollar is equal to about 92 cents of the Australian dollar. The average franchise fee is
about $45,000, which translates to $41,408.55 Australian dollars. Initially the investment price is from $710,000 to $3 million US dollars (USD), which is $653,106.87-2,759,504.71 Australian Dollars (AUD). This price will entice Australian nationals because the conversion fee will not be dramatic. A contract with Sonic lasts for twenty years with a ten year renewal.  

You must have prior or current successful restaurant experience and/or strong entrepreneurial skills. Other fees include advertising around six percent and royalty fees around 4 or 5 percent. Additionally, according to Sonic there are some financial requirements to own a franchise (in USD):

<table>
<thead>
<tr>
<th>Liquidity</th>
<th>Net Worth</th>
</tr>
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<tbody>
<tr>
<td>2 Stores</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>3 Stores</td>
<td>$1,500,000</td>
</tr>
<tr>
<td>5+ Stores</td>
<td>$2,000,000</td>
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</table>

As one can see, a franchiser of a Sonic Drive-In must have a net worth of over a million dollars; in essence, the franchisers must have a substantial amount of money. Although Sonic Drive-In is quintessential of the American Midwest drive-ins from the 1950’s, Australia will be an economic dream and foothold to expand the brand internationally.

### Employee capacity

Having employees at a Sonic Drive-In will be very easy because they are usually paid minimum wage. According to their online government webpage the Australia minimum wage is $15 AUD per hour. The federal law states, “From the first full pay period on or after 1 July 2010 the national minimum wage is $569.90 per week (before tax), or $15 per hour (as rounded to the nearest 10 cents). Before the first full pay period on or after 1 July 2010, employees covered by the national minimum wage were entitled to be paid at least the previous federal minimum wage rate of $543.78 per week or $14.31 per hour (before tax).”

The Australian minimum wage translates to $16.30 US Dollars. Overall costs for employees will be a margin higher, but nothing substantial because they do not tip in Australian restaurants; therefore, wages is somewhat relative.

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12 “Own A Franchise.”
Based upon current Sonic Drive-Ins we predict 18, 2017 full-time employees all together in both restaurants and corporate for our Australian division. Price wise we cannot exceed this number of full-time employees in order to maintain a profit within the corporation.

Other

In 2008, the New York Stock Exchange (NYSE) traded Sonic Drive-In (SONC) for a high of $25.02 per share, since then the stock has fallen with the economic crisis in the United States of America. Since then, the stock has dropped tremendously to its current status of $9.80 (as of 4/27/11); however, the stock price is up within the last year from its’ previous low and holding steady.

By placing franchises throughout Australia, Sonic will enter the international market that its competitors have held a strong advantage in; thus allowing the price per share to raise out of its slump. Competitors such as McDonald’s have had strong international brand recognition. The initial fear of Sonic going international was the idea of a drive-in being too American and targeted too much towards the Southern portion of the United States. McDonald’s is proudly American and has ‘served over 1 billion people’ proudly; it is our intention to place Sonic Drive-In throughout Australia as a stepping stone for the rest of the world. Australia is a strong but steadily growing country. It is not necessarily a company to make huge profits it as one would in an Asian market, but it is a place for Sonic Drive-In to become a world renowned name as McDonald’s already is. If successful here, not only will Sonics price per share rise, but will open up the rest of the world as a market, easily surpassing the one-time high price of $25.02 per share.

How will each activity be measured?

Each activity will be measured based upon overall profitability within our costs sector while maintaining a strong employee organization. The market share will be measured by our pure growth in the fast food industry within Australia; eventually competing neck and neck with McDonald’s and even Domino’s Pizza, who hold the largest market shares. If we increase our number of stores while increasing our stock price, Sonic Corporation can become the quintessential house hold fast-food name throughout Australia, unique for its’ drive-in experience. By sticking to these goals and maintaining the company’s values will ensure a promising future in Australia.
Bibliography


