Sonic Benchmark Report

Executive Summary

Sonic enjoys strong brand equity (particularly in core South Central U.S. markets) around its drive-in format with car stalls, friendly carhops and a plethora of specialty drinks & frozen treats. Its drive-in format increases the chance that every customer will be first in line and allows customers to take their time ordering without concern about slowing a drive-thru line. Sonic's unique digital POPS (point of personalized service) order platform further improves the drive-in experience while facilitating on-lot marketing capabilities. The brand's unique 5 daypart segmentation is well suited to a growing consumer snacking trend and value is addressed by LTO deals and high margin specialty drink & dessert platforms which facilitate happy hour & seasonal evening discounts. A 30% reduction in total menu items (primarily driven by a rationalization of frozen treat customization options) makes it easier for customers & operations and the strategy is to drive results with a greater focus on core products and fewer, more impactful promotions. The system recently doubled its weight in digital media to 20% of total marketing spend in an effort to drive customers to its own digital order platform and its new mobile order ahead capability generates service speeds of under 2 minutes (typically better than 90 seconds) and together with targeted rewards are expected to drive +1% in incremental comp growth. Notably, fiscal 4Q18 results (+2.6%) were attributed to: enhanced marketing reach; refreshed advertising; the intro of exciting new product news; and a completed rollout of mobile Order Ahead. Having said all this, Sonic's sales have underperformed for its last 2 fiscal years through 8/31/18, reflecting: a susceptibility to periods of consumer economic stress when people are most likely to forgo treats & specialty drinks; and increased specialty beverage and snack competition (Sonic's goal to define its value equation in terms of product differentiation & experience is challenged by competitors offering low priced deals). Sonic's challenge is to grow its store-level EBITDAR margin which is pressured by a relatively low AUV (to go with low check) and high ad contribution requirement which is a function of its smaller scale as the 6th largest QSR sandwich player with a regional orientation. **In conclusion, Sonic's opportunity is to add to its attractive business model a more compelling value equation to go with a tweak to its brand positioning capable of prompting consumers to consider the chain as more of a core meal destination rather than a periodic stop for a discretionary treat.**