Wendy's

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ABSTRACT: *This real world case examines Wendy's from its emergence in the fast-food restaurant business to its acquisition. The case is appropriate for marketing, finance, strategic management, and integrative management.*

INTRODUCTION

The first Wendy's restaurant was started in 1969, in Columbus, Ohio. By the 1980s, it had become the nation's third largest hamburger restaurant chain, following only McDonald's and Burger King. The founder of the company was Dave Thomas, who would become as well known as a philanthropist as he was as a businessman. Thomas got his start in the restaurant business with Kentucky Fried Chicken, but left to pursue his childhood dream of operating a hamburger restaurant. Not finding a hamburger restaurant in Columbus to his liking, he opened one himself, which he named "Wendy's," after his then two-year old daughter, Melinda Sue, whose nickname was Wendy.

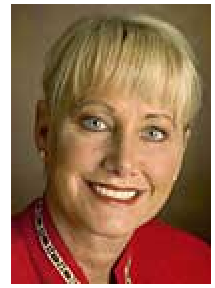
Thomas' formula for success was simple. It became known as his "mop bucket" approach to management. "You can't have a clean floor with a dirty mop bucket," he said. "To be successful, you need to take care of the basics of your business – and that means making sure you don't overlook the little details." From the start, Wendy's emphasized freshness ("Wendy's New Ads," 1985). A 1974 ad stated, "We make our hamburgers fresh every day;" and, a 1980 ad, "You want heat lamps? Go to a health spa." In 1984, the company's advertising slogan, "where's the beef," became something of a national craze, gaining the company enormous free publicity ("Prime ribbing," 1984). In 1982, while the company was doing well, and as a new management team sought to introduce innovations to the company such as a salad bar, Dave Thomas stepped down as president and assumed the title of "senior chairman." ("Hamburger helper," 1991)

By the late 1980s, some problems surfaced. An attempt to introduce an upscale breakfast menu proved to be a failure, and the company suffered two years of decline in same-store sales ("Wendy's retrenchment," 1986). In 1988, the company launched its "Hamburger A" spoof ad, in which various consumers, in a side by side test, actually pick Hamburger B, a dry, tasteless hamburger, over Hamburger A, a tasty Wendy's hamburger ("Wendy's chooses," 1988). The turnaround of the business was short-lived; however, and the company soon embarked on a new tact, one that involved the return of R. David Thomas (as he was known prior to his re-imaging during the 1990s) to active participation in the company ("Wendy's seeks," 1989). At about this time, Robert L. Barney, the company's chairman of the board, who had been the firm's long-time president, retired; and, the position of his successor as president and CEO, Jim Near, strengthened ("Changing of the guard," 1989).

During the 1990s, Dave Thomas appeared in more commercials than anyone else ever had, and became one of the most well-known people in the country. These commercials became one of the great success stories of the decade. However, it didn't quite start out that way. Thomas was initially reluctant to appear in the commercials, and he did not come across well in the first spot. But, by working at it, Thomas mastered the image of a decent, hardworking businessman obsessed with the idea of selling a fresh, good-tasting hamburger. At the meeting of the company's key executives and their ad agency in New York City, where this advertising concept was developed, Thomas said, "Basically, … I want to go to basics in our advertising. We need to go back to talking about the thing that made us great: our old-fashioned hamburgers." The head of the agency replied, "What we need is someone credible to give out that message, and I don't think there's anyone better to do that job than you." ("Pitching burgers," 1991) By 1991, Wendy's "back to basics" strategy had returned the company to its mid 1980s form ("Wendy's '91 net up," 1992); and, by 1992, the company reclaimed the #3 spot in the industry, which had briefly been captured by Hardee's ("With net income up," 1993).

By the late 1990s, the company had 5,200 hamburger restaurants, 1,200 of which were company owned and 4,000 franchisees. In addition, the company had a position in a related business with 1,500 Tim Horton Coffee & Donut stands in Canada. But, with slackening sales growth and slipping profit margins, in 1998, the company dropped the salad bar it had introduced during the 1980s and took $73 million in restructuring loses, even as it planned to open a total of 575 new Wendy's and Tim Hortons units during the forthcoming year ("Wendy's restructuring," 1998). In 1995, Gordon F. Teter succeeded to the office of chairman, president and CEO of the company ("Wendy's increases profits," 1999), having been the president and COO since 1991, upon the sudden death of Jim Near – at the age of 58 – of a heart attack. In 1999, at the age of 67, Dave Thomas was suddenly recalled to duty as chairman and CEO, when Teter – at the age of 56 – also died suddenly of a heart attack ("Wendy's chief," 2000). Joining Thomas in the management team was John "Jack" Schuessler as president and COO ("Thomas No Figurehead," 2000). Within a year, Shuessler was named chairman and CEO, and Thomas reverted to his status of senior chairman ("Wendy's picks," 2000). A couple years later, Dave Thomas passed away.

Wendy's made several strategic moves during the tenure of Jack Schuessler, who was not optimistic about the growth prospects for fast-food restaurants. In 2002, Wendy's acquired Baja Fresh Mexican Grill, a 169-unit chain, in an all-cash, $275 million deal ("Wendy's fast-casual foray," 2002). In two steps, starting in 2002, the company acquired a 70 percent stake in Café Express, with 18 restaurants in Houston and Dallas, Texas, for a total of $14 million ("Dublin, Ohio-based Wendy's," 2004). Also in two steps, starting in 2002, the company acquired a minority stake in Pasta Pomodoro, a 44-unit chain of Italian restaurants ("Wendy's ups," 2004). Together with the company's original hamburger restaurants and its Tim Hortons Coffee stands, the corporation had accumulated a diverse set of restaurant businesses. It was during this period that the company's Wendy's hamburger restaurants extended their hours to include late night business (“Wendy’s emphasizing,” 2000), and began wide-spread acceptance of credit cards (“Wendy’s International,” 2004).



Operating results during the early 2000s were disappointing. The company posted its longest string of same-store sales declines in eighteen years; and, billionaire Nelson Peltz, who had acquired an 8 percent stake in the company, was pressing for restructuring. In 2006, Jack Schuessler suddenly retired, and was replaced as president and CEO by Kerri Anderson, a 48 year old Duke MBA, who had been CFO since 2000. Negotiations immediately got underway between Anderson and Peltz concerning the company’s strategic options. Rumors were afloat that Peltz might seek to acquire Wendy’s, making it a sister company of Arby’s, which he already controlled through Triarc Companies, Inc. (“More changes,” 2006)

The company subsequently sold off Baja Fresh, in 2006, for only $31 million (“Wendy’s completes,” 2006). Wendy’s stake in Café Express was sold back to its original owners, in 2007, on undisclosed terms (“Shiller, Del Grande,” 2007). In 2006, the company’s first acquisition, Tim Hortons, was spin-off in a two-step process, beginning with the sale, in March, of 33.4 million shares, representing 17.25 percent of the company, for $769 million, and concluding with a property dividend to Wendy’s shareholders in September, of 1.354 shares of Tim Hortons to each share of Wendy’s, representing the remaining 82.75 percent (“Tim Hortons,” 2006). With these divestitures, the company had only one non-core investment, its minority stake in Pasta Pomodoro.

During 2007, the company’s performance continued to slip. Sales inched up by only 0.4 percent for the year, and earnings fell in conjunction with the sale or spin-off of three subsidiaries. The company ended its offering of “frescata” sandwiches, and its “red wig” ad campaign was deemed ineffective and was replaced by one with the theme “waaay better than fast food.” (“Wendy’s says,” 2008) Industry analysts began speaking of the company as unfocused since the departures of Dave Thomas, Jim Near and Gordon Teter (“Analysts,” 2008).

By 2007, Peltz had increased his stake in Wendy’s to 10 percent, and Highfields Capital Management, which owned another 9 percent of the company, joined him in advocating restructuring. In addition to the possibility of being acquired by Triarc, it was thought the company might be an attractive acquisition for Yum! Brands, owners of KFC, Pizza Hut, Long John Silvers and A&W restaurant chains, and to a private equity firm.

On July 31st, it was reported that Peltz made an offer to acquire Wendy’s, at $37 to 41 per share, with an immediate response being demanded (“A Fresh Hunger,” 2007). Given a closing price on August 1st of $32.89, should Anderson recommend that her Board of Directors accept the offer? To answer this question, she has assembled the information in Tables 1 through 4 on the major public corporations in the fast-food and casual-dining segments of the restaurant industry.

TABLE 1. Descriptions of major public companies in the fast-food and casual-dining segments of the restaurant industry.

Wendy's	6,645 fast-food restaurants; 1,414 operated by the company, and the remainder by franchisees, in the United States, Canada, and internationally.
Triarc	3,988 fast-food Arby's restaurants; 1,106 operated by the company, and the remainder by franchises, and 243 T.J. Cinnamons stands.
Burger King	11,283 fast-food restaurants; 1,303 operated by the company, and the remainder by franchisees, in the United States, Canada, Europe, the Middle East, Africa, Asia Pacific, and Latin America.
Chipotle Mexican Grill	704 fast-food/casual dining Mexican restaurants.
CKE	3,083 fast-food restaurants, including Hardee's and Carl's Jr., 967 operated by the company, and the remainder by franchisees.
Dardens	1,700 casual dining restaurants, including Red Lobster, Olive Garden, LongHorn Steakhouse, The Capital Grille, Bahama Breeze, and Seasons 52.
Domino's Pizza	8,624 pizza delivery stores, in 55 countries.
IHOP Corp.	3,300 casual dining restaurants, including IHOP and Applebee's, 522 operated by the company, and the remainder by franchisees.
McDonalds	31,377 fast-food restaurants; 6,906 operated by the company, and the remainder by franchisees and affiliates; in 118 countries worldwide.
Papa John's	3,208 pizza delivery stores, in 28 countries.
Yum! Brands	35,000 fast-food restaurants, including KFC, Pizza Hut, Taco Bell, Long John Silvers and A&W, in 100 countries.

TABLE 2. Income Statements (fiscal years ending in 2007).

	WEN	TRY	BKC	CMG	CKE
1.Total Revenue	2,450,244	1,263,717	2,234,000	1,085,782	1,534,634
2.Cost of Revenue	1,919,549	840,363	1,409,000	635,810	1,232,525
3.Gross Profit	530,695	423,354	825,000	449,972	302,109
4.SGA Expense	235,150	284,645	535,000	282,441	214,359
5.Other Expense	138,548	118,809	0	59,348	-577
6.Operating Income	156,997	19,900	290,000	108,183	88,327
7.Other Income	13,769	50,845	6,000	6,115	4,437
8.EBIT	170,766	70,745	296,000	114,298	92,764
9.Interest Expense	45,010	61,331	73,000	296	33,033
10.Income Before Tax	125,756	9,414	223,000	114,002	59,731
11.Income Tax	39,131	-8,354	75,000	43,439	24,659
12.Minority Interest	0	-2,682	0	0	0
13.Income Con Opns	86,625	15,086	148,000	70,563	35,072
14.Income Disc Opns	1,271	995	0	0	-3,996
15.Net Income	87,896	16,081	148,000	70,563	31,076
16.Preferred & other	0	0	0	0	0
17.Income Avail Com	87,896	16,081	148,000	70,563	31,076

TABLE 2. Income Statements (fiscal years ending in 2007) (continued).

	DRI	DPZ	IHP	MCD	PZZ	YUM
1.Total Revenue	5,567,100	1,462,870	484,559	22,786,600	1,063,595	10,416,000
2.Cost of Revenue	4,258,800	1,084,016	303,891	14,881,400	660,472	7,813,000
3.Gross Profit	1,308,300	378,854	180,668	7,905,200	403,123	2,603,000
4.SGA Expense	534,600	184,944	149,313	2,367,000	311,271	1,293,000
5.Other Expense	202,800	0	5,458	1,659,200	31,866	35,000
6.Operating Income	570,900	193,910	25,897	3,879,000	59,986	1,275,000
7.Other Income	600	-7,977	0	103,200	1,446	31,000
8.EBIT	571,500	185,933	25,897	3,982,200	53,493	1,357,000
9.Interest Expense	40,700	130,374	28,654	410,100	7,465	166,000
10.Income Before Tax	530,800	55,559	-2,757	3,572,100	46,028	1,191,000
11.Income Tax	153,700	17,677	-2,247	1,237,100	13,293	282,000
12.Minority Interest	0	0	0	0	-7,939	0
13.Income Con Opns	377,100	37,882	-510	2,335,000	32,735	909,000
14.Income Disc Opns	-175,700	0	30	60,100	0	0
15.Net Income	201,400	37,882	-480	2,395,100	32,735	909,000
16.Preferred & other	0	0	-1,742	0	0	0
17.Income Avail Com	201,400	37,882	-2,222	2,395,100	32,735	909,000

TABLE 3. Balance Sheets (fiscal years ending in 2007).

	WEN	TRY	BKC	CMG	CKE
		ASSETS			
1.Cash and equiv	211,200	78,116	170,000	151,176	19,993
2.Short-term Invest	0	2,608	0	20,000	0
3.Net Receivables	79,373	27,610	168,000	17,339	80,341
4.Inventories	29,590	11,067	0	4,332	27,068
5.Other Curr Assets	46,003	50,853	66,000	8,997	33,603
6.Total Curr Assets	366,166	170,254	404,000	201,844	161,005
7.Investments	0	188,128	142,000	0	838
8.Property	1,246,885	504,874	879,000	494,930	524,878
9.Goodwill & intan	86,705	514,096	1,009,000	21,939	25,326
10.Other Nonc Assets	89,641	77,215	83,000	3,402	79,664
11.Total Assets	1,789,397	1,454,567	2,517,000	722,115	791,711
		LIABILITIES & NET WORTH			
12.Accounts Payable	219,497	172,082	429,000	64,183	115,626
13.Short-term Debt	26,591	27,802	5,000	0	23,798
14.Other Curr Liab	74,917	7,279	0	9,118	69,091
15.Total Curr Liab	321,005	207,163	434,000	73,301	208,515
16.Long-term Debt	543,023	711,531	938,000	3,960	368,238
17.Other Nonc Liab	121,238	86,041	429,000	82,744	69,716
18.Minority Interest	0	958	0	0	0
19.Total Liabilities	985,266	1,005,693	1,801,000	160,005	646,469
20.Preferred Stock	0	0	0	0	0
21.Total Com Equity	804,131	448,874	716,000	562,110	145,242
22.Total Liab & NW	1,789,397	1,454,567	2,517,000	722,115	791,711

TABLE 3. Balance Sheets (fiscal years ending in 2007). (continued)

	DRI	DPZ	IHP	MCD	PZZ	YUM
ASSETS						
1.Cash and equiv	30,200	92,295	154,976	1,981,300	8,877	789,000
2.Short-term Invest	0	440	300	0	0	0
3.Net Receivables	128,100	77,435	137,197	1,053,800	29,686	350,000
4.Inventories	353,600	24,931	73,627	125,300	18,806	128,000
5.Other Curr Assets	33,500	31,781	67,578	421,500	16,292	214,000
6.Total Curr Assets	545,400	226,882	433,678	3,581,900	73,661	1,481,000
7.Investments	0	2,664	288,452	1,156,400	12,629	153,000
8.Property	2,184,400	122,890	1,139,616	20,984,700	198,957	3,849,000
9.Goodwill & intan	54,000	30,902	1,742,185	2,301,300	86,505	1,005,000
10.Other Nonc Assets	97,000	89,826	227,231	1,367,400	30,065	754,000
11.Total Assets	2,880,800	473,164	3,831,162	31,693,000	401,817	7,242,000
LIABILITIES & NET WORTH						
12.Accounts Payable	417,400	130,379	283,302	624,100	98,489	1,138,000
13.Short-term Debt	211,400	15,312	0	1,126,600	8,700	288,000
14.Other Curr Liab	445,600	29,817	98,038	2,747,800	0	636,000
15.Total Curr Liab	1,074,400	175,508	381,340	4,498,500	107,189	2,062,000
16.Long-term Debt	491,600	1,704,771	2,432,129	7,310,000	134,006	2,924,000
17.Other Nonc Liab	220,300	43,024	621,270	2,303,400	25,071	1,117,000
18.Minority Interest	0	0	0	0	8,648	0
19.Total Liabilities	1,786,300	1,923,303	3,434,739	14,111,900	274,914	6,103,000
20.Preferred Stock	0	0	187,085	0	0	0
21.Total Com Equity	1,094,500	-1,450,139	209,373	15,279,800	126,903	1,139,000
22.Total Liab & NW	2,880,800	473,164	3,831,197	29,391,700	401,817	7,242,000

TABLE 4. Market Data (circa 8/1/2007).

	WEN	TRY	BKC	CMG	CKE
1.Shares Outstanding	87,400	92,770	135,680	32,980	52,480
2.Price per share	32.89	14.79	23.71	103.99	16.95
3.Beta	1.94	1.10	1.31	2.32	1.57

TABLE 4. Market Data (circa 8/1/2007) (continued).

	DRI	DPZ	IHP	MCD	PZZ	YUM
1.Shares Outstanding	140,050	59,630	17,080	1,170,000	28,850	473,000
2.Price per share	41.60	17.59	62.87	49.50	25.36	32.72
3.Beta	0.93	0.45	0.16	1.58	0.17	1.56

SUPPLEMENTAL QUESTIONS

1. Below are links to seven Wendy's ads from the 1980s through the 2000s, including a "Where's the Beef" ad and a Dave Thomas ad. Each was developed by a nationally-recognized advertizing firm and was thought, at the time, would be effective in contributing to sales revenue. In hindsight, some were thought to not be very effective. Looking over the ads, summarize each in no more than 50 words, commenting on what you think was their effectiveness in contributing to sales revenue, and rank order them from best (#1) to worst (#5) in effectiveness.

   A. http://www.youtube.com/watch?v=Ug75diEyiA0&feature=related
   B. http://www.youtube.com/watch?v=5CaMUfxVJVQ
   C. http://www.youtube.com/watch?v=OTzLVIc-O5E&feature=related
   D. http://www.youtube.com/watch?v=eeEPoRkGM_c
   E. http://www.youtube.com/watch?v=rrSiyri5G48&feature=related

2. During his tenure with the company, Dave Thomas stressed a "back to basics" approach. In contrast, other executives seemed interested in extending Wendy's product line, or in diversifying the corporations into other segments of the restaurant industry. First, identify a representative sample of four or five efforts by other executives to extend the company's product line and to enter other segments of the restaurant industry. And, second, evaluate the relative success of the "back to basics" strategy to the diversification strategy.

3. It appears that Wendy's had indeed become "unfocused" following the loss by death of two key executives and the re-retirement of Dave Thomas. As difficult as it is for an organization to deal with the sudden loss of one key executive, it would even more challenging for an organization to deal with the sudden loss of two or more. Discuss steps that companies might take, pro-actively, to deal with the sudden loss of key leaders.

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TEACHING NOTE

This case examines the strategic management of Wendy's from its emergence as a leader in the fast-food restaurant business to its attempt to diversify itself across several segments in the restaurant business to its spin-off of almost all of its non-core operations and its acquisition. In detailing this history, attention is paid to the company's imaging of itself to the public, the roles played by its key executives in response to certain successions in leadership, and to the dynamics involved in the valuation of an enterprise. The case is appropriate for courses in leadership, strategic management, marketing, finance and integrative management.