

MCDONALD'S CORPORATION: THE PAST, PRESENT, AND FUTURE



Table of Contents

| | |
|-------------------------------------------------|-----------|
| <u>A.</u> Introduction | 3 |
| <u>B.</u> Company Analysis: | |
| 1. Beginning of an Empire | 4 |
| 2. InDepth Financials | 5 |
| 3. Charitable Contributions | 7 |
| <u>C.</u> Expansion Into Global Markets: | |
| 1. China | 7 |
| 2. South Africa | 8 |
| 3. Brazil | 9 |
| 4. Saudi Arabia | 10 |
| <u>D.</u> SWOT'S | 10 |
| <u>E.</u> Recommendation | 14 |
| <u>F.</u> Conclusion | 15 |
| <u>G.</u> Sources | 16 |

A. Introduction



In beginning a new century the McDonald's Corporation is looking towards the future, more specially in the area of global expansion. Gone is the traditional style McDonald's that many people are accustomed with, McDonald's are focusing on new innovative modifications to their menu, depending upon the regions culture, customs, and traditions. Opening coffee bars in the United States is also on the agenda for the world's largest fast-food behemoth. McDonald's, realizing a need for global expansion, diversified into other areas of the fast-food industry. Some of the company's most recent and notable acquisitions were the Boston Market restaurant chain and taking a 33% stake in the United Kingdom's Pret A Manger, a sandwich bar chain with more than 100 outlets across the United Kingdom (). When a firm decides to do business internationally, there are many considerations the entity McDonald's weighed to choose the best strategy in going overseas. Some of the cross-cultural issues facing McDonald's management are similar, however many practices vary depending upon which country the global fast-food chain decides to do business. Management has to prepare for the uncontrollable events such as the grave concerns over "mad cow" disease, which has recently sprung into the limelight once again in Europe and how this event could damage McDonald's profits all over the globe. In this report we will evaluate the choices McDonald's has made in expanding internationally, as provide some recommendations as to how the company should continue with plans for global expansion. "To know where one is going, one must take a look at where they have been." In other words lets analyze the extraordinary his tory of this outstanding company.

B. McDonald's Corporation

1. *The beginning of an empire:* Many people believe that Ray Kroc, a salesman from Oak Park, Illinois was the founder of McDonald's. This idea is a misconceived notion. In 1954, Kroc heard of two brothers, Mac and Dick McDonald, who had

purchased eight of these speedy mixers for their profitable burger and shakes joint in San Bernadino, California. Interested in how such a small place of business could have use for such a relatively large number of mixers, Kroc paid the McDonald brothers a visit. He was immediately inspired by the bustling operation: 15¢ cent burgers, french fries, and shakes cranked out in assembly line style, provided in a fast-paced dining atmosphere. Kroc, always a creative thinker, saw a potential for franchising and negotiated a deal with the McDonald brothers, receiving .5 percent of



the gross with unlimited use of the McDonald name and concept. The first chain restaurant opened in Des Plaines, Illinois in April 1955, with opening day sales of \$366.12.

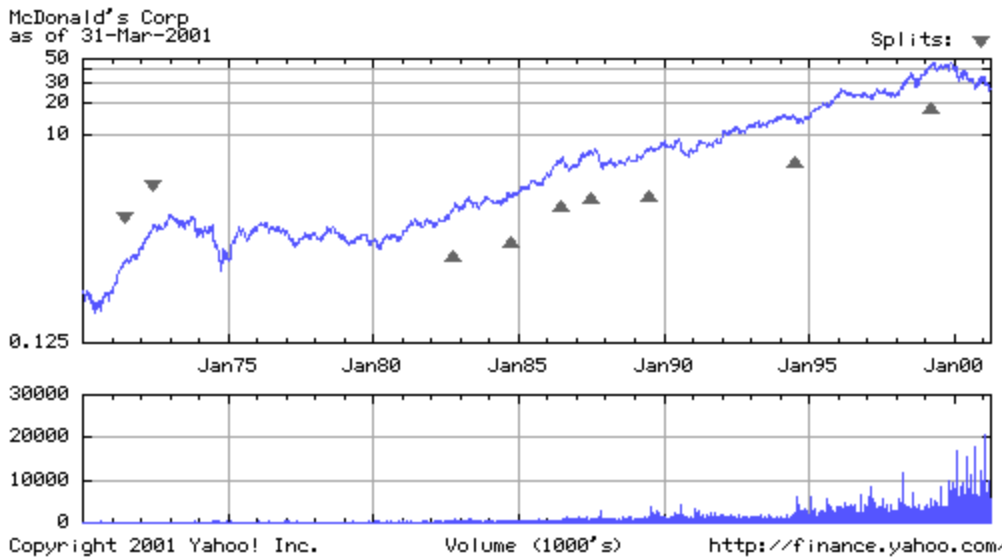
Within six years, over 130 McDonald's restaurants had opened across the country. In 1961, Ray Kroc bought the chain from the McDonald brothers for the comparatively miniscule sum of \$2.7 million **(2)**. The business kept growing, and soon Kroc's booming franchise had sold over one billion burgers, a statistic advertised on a sign next to McDonald's trademark golden arches. Today, McDonald's is the world's #1 fast-food chain (and #1 owner of commercial real estate), operates more than 28,000 restaurants (some 12,600 in the US) in about 120 countries worldwide. Non-US restaurants account for more than 60% of the company's sales and more than 50% of profits. The company facilitates the process of growing local industries and economies by making sure 50% of all products are manufacturing locally in the gulf regions. The revenue for the company for the fiscal year 2000 was \$14.2 billion (up 7.4% from the previous year). Almost 80% of the units are franchised. In addition to the burger business, McDonald's has invested in Chipotle Mexican Grill, and acquired the Donatos Pizza chain in addition to the acquisitions stated earlier **(3)**. McDonald's is truly a diverse international corporation, a far cry from the one restaurant in San Bernardino . McDonald's are opening in more non-traditional locations like Amoco and Chevron gas stations, offering a full menu as well as seating to accommodate it's customers. The company has also been a major income producer for high school students looking to satisfy their pockets with a little spending money. As of the year 2000, the

McDonald's Corporation employed over 364,000 up 15.9 percent from the previous year. (17)

2. In Depth Financials:

MCDONALDS CORP (NYSE:MCD) - More Info: [News](#), [Msgs](#), [Profile](#), [Research](#), [Insider](#), [Options](#) - Trade **NEW!**: [Choose Brokerage](#)

| | | | | | |
|-------------------------------------|--------------------------|--------------|--------------------|----------------------|-------------------|
| Last Trade Mar 29 · 26.55 | Change +0.06 (+0.23%) | | Prev Cls 26.49 | Volume 5,861,300 | Div Date Dec 1 |
| Day's Range 25.52 - 26.60 | Bid N/A | Ask N/A | Open 0.00 | Avg Vol 5,145,000 | Ex-Div Nov 13 |
| 52-week Range 24.7500 - 39.9375 | Earn/Shr 1.46 | P/E 18.14 | Mkt Cap 34.645B | Div/Shr 0.21 | Yield 0.81 |



Splits: 14-Jun-71 [3:2], 6-Jun-72 [2:1], 7-Oct-82 [3:2], 25-Sep-84 [3:2], 26-Jun-86 [3:2], 23-Jun-87 [3:2], 19-Jun-89 [2:1], 27-Jun-94 [2:1], 8-Mar-99 [2:1]

[1d](#) | [5d](#) | [3m](#) | [1y](#) | [2y](#) | [5y](#) | **max**

Other: [historical quotes](#) | [small chart](#)

Basic | [Moving Avg](#) |

Compare
MCD vs.

S&P

Nasdaq

Dow

Statistics at a Glance -- NYSE:MCD

As of 30-Mar-2001

| Price and Volume | | Per-Share Data | | Management Effectiveness | | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|-------------------------------------|---------|--------------------------------------------|-------------------------------|-------------|------|
| 52-Week Low on 26-Mar-2001 | \$24.75 | Book Value (mrq) | \$7.05 | Return on Assets (ttm) | 9.36% | | |
| Recent Price | \$26.55 | Earnings (ttm) | \$1.46 | Return on Equity (ttm) | 21.46% | | |
| 52-Week High on 24-May-2000 | \$39.938 | Earnings (mrq) | \$0.34 | Financial Strength | | | |
| Beta | 0.65 | Sales (ttm) | \$10.49 | Current Ratio (mrq) | 0.70 | | |
| Daily Volume (3- month avg) | 5.14M | Cash (mrq) | \$0.32 | Debt/Equity (mrq) | 0.92 | | |
| Daily Volume (10- day avg) | 5.49M | Valuation Ratios | | Total Cash (mrq) | \$421.7M | | |
| Stock Performance | | Income Statements | | Short Interest As of 8-Feb-2001 | | | |
| <p>MCD 30-Mar-2001 (C) Yahoo!</p> <p>May Jul Sep Nov Jan Mar</p> <p>big chart [1d 5d 3mo 1yr 2yr 5yr max]</p> | | Sales (ttm) | | \$14.2B | Shares Short | 13.4M | |
| | | EBITDA (ttm) | | \$4.34B | Percent of Float | 1.0% | |
| | | Income available to common (ttm) | | \$1.98B | Shares Short (Prior Month) | 14.8M | |
| | | Profitability | | Profit Margin (ttm) | 13.9% | Short Ratio | 2.16 |
| | | Operating Margin (ttm) | | 23.4% | Daily Volume | 6.19M | |
| | | Fiscal Year | | | | | |
| | | Fiscal Year Ends | | Dec 31 | | | |
| | | Most recent quarter | | 31-Dec-2000 | | | |
| Share-Related Items | | | | | | | |
| Market Capitalization | \$34.6B | | | | | | |
| Shares Outstanding | 1.30B | | | | | | |
| Float | 1.29B | | | | | | |
| Dividends & Splits | | | | | | | |
| Annual Dividend (indicated) | \$0.21 | | | | | | |
| Dividend Yield | 0.81% | | | | | | |
| Last Split: 2 for 1 on 8-Mar-1999 | | | | | | | |
| See Profile Help for a description of each item above; K = thousands; M = millions; B = billions; mrq = most-recent quarter; ttm = trailing twelve months; (as of 31-Dec-2000) | | | | | | | |

The diagram above depicts the McDonald's Corporation Stock Price, management effectiveness, per-share data, financial strength, and profit margin as of December 31, 2000. This financial data exemplifies McDonald's effective corporate strategies to stay profitable and competitive.

3. *Charitable Contributions:* The McDonald's corporation also believes in giving back to the community. In 1974 Fred Hill of the Philadelphia Eagles teamed up with McDonald's to form the Ronald McDonald House. There families of chronically ill children can stay while they're away from home as their children undergo treatments. Today, the Ronald McDonald House Charities has begun several initiatives to help children around the globe. One is the International Ronald McDonald Care Mobile Program which provides medical care directly to children in underserved communities (4).

C. McDonald's Expansion Into Foreign Markets

McDonalds serves less than 1% of the world's population each day, so it has been able to expand rapidly overseas without running the risk of market saturation. There is tremendous global opportunity for the McDonalds brand to expand. McDonalds is growing at the rate of between 1 000 and 1 500 restaurants a year and by five to 10 new countries a year. It employed 1-million people in 1996 and this has grown to as much as 2-million in 2000. McDonald's conducts a battery of market research analysis before expanding into an area, which is the determination between success and failure in an international venture. In countries where customers prefer something else, McDonald's incorporates it in the menu. So we have a pommefrite sauce in Belgium and Holland, and a special mayonnaise based sauce in Iceland. McDonald's is proudly American. Yet it doesn't look down on the markets of other nations. It respects their cultures, their beliefs and likings. It caters to people's needs in a wholesome manner. Naturally, the customers identify with it and visit it's outlets again and again.



1. *China:* McDonald's management has taken an interesting approach of doing business in China which is far different from the way McDonald's restaurants are managed in the

United States. McDonald's has managed to succeed where most Western-based Multi-Nationals have failed. One primary reason as to why many Western Multi-National Corporations have failed resulting in the lack of appreciation for the Chinese culture. McDonald's have made major strides to adapt to the Chinese culture when conducting business in China. To begin with, locals manage all the McDonald's restaurants, which is very important when conducting business in a foreign environment. Many firms bring their own management to the foreign that is not very familiar with the culture, customs or traditions in China. It can be said that many business ventures are doomed from exception because of this fact. Another factor that worked well in McDonald's favor in Europe was the management's ability to allow Asian consumers to gradually twist the McDonald's company culture for their own purposes. In the United States the concept of fast food and people eating out for convenience is prevalent in our society, in contrast to Chinese society. In China, the McDonald's restaurants are more similar to the coffee houses in Seattle where people can socialize with their peers (5).



Other key elements in business practices in the United States versus China are modifications in the menu and the approach in which McDonald's management overseeing the operations in China advertises. One of its appeals is the limited number of selections on the menu in contrast to that of the menu used in the United States. For example, in China McDonald's has met the demands of consumers by adding the teriyaki burger (a sausage patty on a bun with teriyaki sauce) to its menu. McDonald's has become so accustomed to the Chinese culture many of its customers do not realize it is an American-Based Corporation. The company has is being nationally responsive, which is a key factor in any plan for global expansion (5).

2. *South Africa*: In South Africa McDonald's has developed a very effective strategy, which is to serve customers where they eat, shop, and play. The idea is to focus on high profile, high populated, cities to penetrate. Interestingly McDonald's found that drive thru facilities perform much better than the McDonald's without. South Africa has a higher number of drive-throughs than comparable societies such as Australia and the United States. "The drive-through



restaurant is very much our strong suit and gives us a competitive edge in South Africa,” says Darryl Webb, Managing Director of McDonalds South Africa (6). McDonald’s will continue to focus on convenience locations such as shopping malls and other areas, including townships. Marketing efforts used in attracting people the McDonalds in South Africa focuses on people of all economic levels, from high-income areas such as Sandton to lower-income areas such as Old Fort Road in KwaZulu-Natal(16). The business is doing well and in many cases exceeds the initial expectations in terms of turnover and profitability. McDonalds is setting the industry standard. In South Africa, the company has 90 branches spanning all nine provinces. It has 3 000 staff in just 39 restaurants, most working for franchisees (18). Each new restaurant opening creates as many as 80 new jobs. McDonalds has invested R300-million in South Africa to date and will add another R200-million by the end of this year. The Company is using vertical integration as a means to enhance it’s productivity by acquiring Sun Systems software packages Vision XL and Vision Executive to make report writing more efficient, less time consuming, and user friendly(14). This helps McDonald’s say effective maintain a competitive edge in the cutthroat world of business. Not only does the Vision Executive Program arm company decision-makers with the financial and analytical power to effectively manage and control the performance of their business, but also allows accountants to be more efficient. The capacity to personally access and analyze the data held in a SunSystems database enables fast identification of trends, problems and opportunities affecting the business. In combining these factors McDonald’s “bottom line” should improve.

3. *Brazil*: Since McDonald's arrived in Brazil in 1979, many franchisees had a strong business selling Big Macs. Today, 21 years later and 500 stores, this certainty is shaken. Behind the lines of customers eager for a sandwich are Brazilian franchisees that are having a hard time financially. Brazil is McDonald’s eighth largest market worldwide. McDonald’s Brazil management team is most noted for its continued efforts to improve quality and customer satisfaction. The Brazilian Franchising Association (ABF) awarded McDonald’s Brazil with the Franchising Hallmark of Quality.



The prestigious honor is given to only 24 of the 863 companies that operate under the franchising system in the country (15). In addition to the Hallmark of Quality, McDonald's Brazil has received in 2000 three other equally important acknowledgements. *Exame* magazine, the country's leading business publication, has chosen McDonald's as the third Best Employer in the country and ranked it among the ten best companies with Corporate Citizenship practices. McDonald's was also referred to as the fifth most admired company in the country by the renowned magazine *Carta Capital*. (7). It's still possible to succeed, but the chance of bankruptcy, almost nonexistent in the past, has increased. According to an estimate made by franchisees that are in judicial litigation against the fast food chain, around 80% of the 152 franchisees that own half of the stores in Brazil are having difficulty to make ends meet at the end of the month. The financial difficulty is a result of the devaluation of the Real in early 1999 (8). Some decided to sell their business. Others decided to fight judicially against McDonald's. The majority seeks temporary discounts of the rent paid to the company while struggling to get back to the success they had in 1996. A bothersome fact is the background to franchisees dissatisfaction while they reduce costs; McDonald's has fast growth. When franchisee Henry Chmelnitsky, the first McDonald's franchisee in Brazil, discovered how the rapid growth was being conducted, he sold his two stores in Porto Alegre in 1998 and put an end to the marriage that had lasted 11 years. "I didn't agree with the direction things were taking", says Chmelnitsky. "It wasn't the relationship that I wanted" (8).

4. *Saudi Arabia*: McDonald's Saudi Arabia closes five times a day for muslim prayers. McDonald's India offers aloo tikki and paneer. And it doesn't serve beef or pork at all. The Big Mac becomes Maharaja Mac in India (20). For vegetarians (a majority in India), there's an assurance of separate kitchen, utensils and cooks. So much so that in Ahmedabad (a predominantly vegetarian city), McDonald's is actually toying with the idea of opening an all-vegetarian outlet. McDonald's in all Islamic countries doesn't serve pork, in deference to Muslim tenets of belief. Most people around the world like burgers with french fries and cola and that's what McDonald's serves. There are two restaurants that are located in the Holy City of Makkah that are quite unique. These restaurants are the only two (2) restaurants in the world that serves exclusively to Moslem customers. These restaurants are also the only two that are fully staffed with Moslem employees, from the Service Crew to the Restaurant Manager level (9). Through the efforts of Riyadh International president (Riyadh International Catering Corporation is a 100% Saudi national company and the franchisee holder of McDonald's International Company in the Central and Eastern Regions of Saudi Arabia., His Highness Prince Misha'al Bin Khalid Bin Fahad Al Faisal Al Saud, more than 50% of the products used are manufactured locally and in the gulf regions. This effort has improved the local industries and national economy.



D. SWOT's

1. Strengths:

a. *Adaptability*: The McDonald's corporation is able to adapt to it's surrounding customs while still preserving a unique blend of corporate culture. This can be seen simply just be a person going into a McDonald's franchise in another country. There are different variations of the menu, a salesforce that is indicative of the community, and even the structure of the McDonald's buildings vary per country. McDonald's is a perfect example to a Multinational Corporation's ability to add that local feeling to the environment while still preserving its American roots.

b. *Technology Innovative*: McDonald's is keeping at the forefront of technology around the globe. For example, In Brazil McDonald's is currently studying the installation of Internet access terminals in some outlets as well as enabling customers to order online (10). This will create a more efficient process that will reduce the amount of lag time between a customer's orders and pick up of the order.

c. *Socially Aware*: By establishing the Ronald McDonald House Charities (RMHC) which to date has over 174 Ronald McDonald Houses in over 34 Countries (4). These Houses support RMHC initiatives by giving back to the community. McDonalds gives millions of dollars each year to selective charities. In addition McDonald's has stopped using the styrofoam containers used to hold the sandwiches because they were not recyclable and begun using box containers that are easily broken down.

d. *Marketing*: No matter the continent, children and adults alike are know the face of Ronald McDonald is synonymous with the colossus restaurant chain. This results in wonderful marketing strategies among management which conducts a very thorough market analysis, resulting in much success around the globe.

2. *Weaknesses*:

a. *Customer Service*: Customers are not please at the idea of waiting in long lines and insufficient employees to handle the volume of customers. Sometimes the employees are often rude forcing the customer to go to a competitor the next time.

b. *EuroDollar*: With the current weakness of the EuroDollar, McDonald's earning for the year have changed. The company has warned analyst to drop six cents off their the earnings projections. Many multinational corporations are suffering from the same dilemma.

c. *Dissatisfied Franchisees*: Franchisee's are beginning to become very dissatisfied with the fees that McDonald's are forcing them to pay. As the company continues to expand,

they are also increasing the amount of fees franchisees have to pay for the use of the notorious fast-food brand. Many people are not very happy about this and as a result many franchisees are selling their businesses.

d. Adult Sandwiches: McDonald's derives much of its success from children. However there is a problem when the children have grown into adults. McDonald's have tried several marketing campaigns and the addition of new sandwich brands gearing towards adults, but has not had much success in gaining adult market share.

3. *Opportunities:*

a. Expansion: As previously noted, McDonald's only serves less than one percent of the world's population per day. Although the market in the United States is saturated, the global opportunities for expansion are endless particularly in the areas of Europe, India, and Asia.

4. *Threats:*

1. *Competition:* The McDonald's Corporation is the number one fast food company in the world. Needless to say when you are #1 it is very easy to lose your position if a company does not keep its competitive edge. For the first time in history, in 1997 McDonald's had lost the lead in U.S. market to rival Burger King.

2. *Mad Cow Disease:* In recent months an epidemic was broken out of the use of beef particularly in Europe is in part responsible for the drop in the company's over there. Sales for the fourth Quarter 2000 had declined, largely because of consumer fears over mad-cow disease. In January and February, however, sales in Europe were flat from a year earlier when measured in constant currencies **(11)**.

E. Recommendation

Although saturated in the United States, McDonald's has great expansion capabilities abroad. The international strategy of focusing on high profile cities along with high-populated areas and in some instances forming joint ventures with established companies in a particular country.

McDonald's also realizes that it needs to diversifying into others area of food industry



would have the greatest potential for profitability. The key is not to become involved in to many areas of the food industry, which would increase the potential for liability to the company. McDonald's has also built the McDonald's Hotel in Zurich, Switzerland; needless to say it is a very

unique hotel (12). The company has several advantages going from them. The first is name recognition. McDonald's has established a brand name that in some areas are synonymous with excellence. Everywhere millions on people are familiar with the Golden Arches that are on top of every McDonald's restaurant. Not to mention the enormous real estate holdings owned by the company. Each individual property is owned by the corporation and his leased to the franchisee. This strategy created by Ray Kroc was ingenious and has increased McDonald's bottom line considerably. The second is the ability to adapt to the culture in the country in which the company does business. Many people in these countries are unaware that McDonald's in an American entity. The company's menu is still relatively inexpensive compared to that of its competitors. McDonald's should focus on its strengths particularly marketing towards children at least in the United States and perhaps set up a marketing campaign geared towards adults in another country. Amid the Mad Cow disease scare currently occurring in Europe, McDonalds should infuse some on it's vegetarian products to the menu. This would give consumers an alternative while allowing McDonald's to maintain its market share in the area.

F. Conclusion

McDonald's has undergone several changes since its inception in San Bernardino, California. The fast food chain has conquered the U.S. and is now focusing on the rest of the world. Although maybe the company should consider the pace of the plans for expansion. The company has nearly doubled its debt load from \$2.6 billion in 1993 to \$5.3 billion in 1999(13). This fact is not sitting well with many investors however, McDonalds continues to strive towards customer satisfaction while still enhancing its international position. The company is doing very well in Africa, China, and the Middle East, which will be a continued source of revenue for many years to come.

G. Sources:

- (1): “McDonalds to Take Stake in Pret a Manger” **Times Newspapers Ltd.** January 31, 2001
- (2): <http://www.biography.com/search/index.html>
- (3): Hoover’s Company Capsule: “McDonald’s Corporation”
<http://www.hoovers.com/co/capsule/4/0,2163,10974,00.html>
- (4): Bruns, Rick “Marketing” **Red Herring Communications, Inc.** August 8,2000
- (5): Hodgetts, Luthans. **International Management: Culture, Strategy, and Behavior.** 4th edition. Irwin McGaw-Hill, 2000
- (6): “McDonalds a Hit in SA”. **Business Times** October 17,2000 <http://www.btimes.com>
- (7): **Business News Americas** 2000 <http://www.bnamericas.com>
- (8): Jain, Namita. “McDonalds: Success Through Thinking Global, Acting Local”
Delphi Magazine. January 26, 2000
- (9): “McDonald’s plans to open coffee bars in U.S.” **Businessweek.** March 22, 2001
- (10): “McDonalds Goes for Business unusual” **Priorities** February 19, 2001
- (11): <http://quote.yahoo.com/q?s=mcd&d=v1>
- (12): Boyles, David. “ Celebrating the McDonald’s McVeggie”.
<http://www.goinside.com> October 1, 2000
- (13): Cohen, Deborah. “Mad Cow outbreak to Dampen European Sales” **Reuters**
November 29, 2000
- (14): Cohen, Deborah. “McDonald’s Sales Hit by Mad Cow” **Reuters** December 12,
2000
- (15): McDonald’s Annual Report 1999
- (16): Turner, Sarah. “In Bed With McDonalds” Times **Newspapers Ltd.** March
24,2001
- (17): “Menu Specialist Promoted to Top Marketing Post” **The New York Times,**
February 24,2001
- (18): “McDonald’s Taskforce Calls for a Simpler Menu” **Reuters** March 31.2001
- (19): Waters, Jennifer “McMighty meals for growing Kids” **CBS Market Watch** March
22, 2001

(20): Ordo, Jennifer “McDonald's to Assess Full-Service Effect On Profit With Launch of Diner Concept” Wall Street Journal March 16, 2001