

E-business plan for mcdonald corporation essay sample

[Business](#)



Companies of all sizes go international for different reasons, Deresky (2011) stated that the threat of their own decreased competitiveness is the overriding reason many large companies want to move fast to build strong positions in key world markets (p. 198). Deresky (2011) also suggested many multinational corporations (MNCs) have developed their global operations to the point it becomes fully integrated, often vertically, and horizontally, including suppliers, productive facilities, marketing, and distribution outlets, and contractors around the world. McDonald's Corporation has become globally integrated with worldwide sourcing and a fully integrated production and marketing system. The company's competencies and strength have lied in operational excellence, customer intimacy, and product leadership.

McDonald's corporation has approximately 70% of its restaurants franchised, although in Asia, joint ventures are preferred so as to take advantage of partners' contacts and local expertise, and their ability to negotiate with bureaucracies such as the Chinese government. The company continues with its current horizontal growth strategy of expanding the restaurants throughout the world, as international opportunities are still available.

An international opportunity for the McDonald's Corporation to consider is a merger and acquisition with other "local based" food chain internationally. E-market segmentation approach could be considered in this process.

Conklin (2011) agreed that customers can be targeted more precisely with a set of offers geared directly to their previous consumption patterns and their individual interest, rather than a traditional uniform presentation to all customers. Customers entering the new merger of McDonald restaurant can be offered what each customer wants by collaborating with the other local

food chain to build a stronger team. These new realities require that the firm significantly change its advertising and marketing strategy (Conklin, 2011). This will increase sales and reduce cost in every area and also will broaden more alliances, and collaboration in the country as a result will enhance product portfolio of the organization. An example is Yum, owner of chains like KFC, Pizza Hut, Taco Bell, and Long John Silver's bought a 20% stake in Little Sheep in 2009 and increased that to 27. 2% in 2010. In April 2011, Yum increased its stake to 93% at the market price, in a deal valued at over US\$580m, by buying out the existing shareholders of the Hong Kong-listed company. China's commerce ministry approved the buyout in November 2011 under China's anti-monopoly law. Little Sheep, which operates hot-pot concept restaurants, became a subsidiary of Yum. The two original Little Sheep founders remain minority shareholders, providing strategic advice, and working with Yum.

Another international opportunity for McDonald's Corporation to adopt is a Corporate Social Responsibility (CSR) strategy to increase sales, profit, and maximize shareholders value. According to Conklin (2011) if management considers only the short-term maximization of shareholders value, it may feel justified in limiting CSR activities. However, if management is concerned with long-term shareholder value maximization, management may see a much larger array of CSR activities as being appropriate. Deresky (2011) postulated that McDonald's international strategic formulation requires a long-term perspective. McDonald's company's vision states a "commitment to our customers, to our owner and operators, to our suppliers, and to the communities we serve" (McDonald's Operation Resource Center, 2007). This

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demonstrates management's commitment to treat all its external and internal stakeholders in a reliable and dedicated way.

Their stated goal is long-term sustainable growth for stakeholders.

McDonald's Corporation can use the CSR to create a competitive advantage by investing in social issues such as hunger, community development, literacy, school reforms, AIDS, and environmentalism. Porter and Kramer (2002) argued that corporate philanthropy can be designed so as to improve the firm's profitability over time. From this perspective Conklin (2011) agreed that the firm should align its long-term business interest in each nation with each nation's social and economic goals. For example, education, water, and sewage treatment are obvious areas in which firms can collaborate in efforts to strengthen research institution, the legal system, and physical infrastructure, each of which can improve the international competitiveness of all local firms (Conklin, 2011).

Current economic and market situation that could affect the company McDonald's was forced to contend with a number of potential obstacle toward growth in recent years, most notably was criticism and a less than favorable global economic climate that has seen consumer reduce discretionary spending. With the market situation people are becoming more health conscious environment. A challenge with which the company has had to contend with is much negative press. McDonald's has been the target of a great deal of criticism in recent years, with public health officials and even high profile public-figures, such as first Lady Michelle Obama weighing in

with negative comments. A particular concern has been the high level of saturated fat, salt, and sugar contained in the meals, with all being named by detractors as causes of obesity. McDonald's has however, employed strategies to counter these problems, and the decision the company has taken has allowed it to maintain a strong level of growth (McDonald's Corporation Case Study, 2012). The move to counter the problem against its critics was achieved by developing more menu choices that healthy and socially acceptable.

McDonald's has progressed to healthier menu, achieved by making changes to existing items and introducing new offerings, has helped satisfy some of its critics and attract those possibly more health-conscious than the traditional McDonald's customers (McDonald's Corporation Case Study, 2012). Working in a less than favorable global economic climate, the company continues to excel in operational efficiency through a well-integrated chain that brings together suppliers, franchisees, and employees allowing them provide diners with the best service possible. All these factors combined are enabling McDonald's to stay ahead of the business and continue to increase revenues, profits, and the number of restaurant globally. Although, global economic problems are apparent, McDonald's corporation announced plans for a significant investment of \$2. 1 billion for about roughly 1, 000 new locations in 2010, 240 of which will be in Europe, 165 in the United States, and 600 in Asia as the company continues to globalize its business. Currently, nearly two-thirds of all its sales are generated outside the United States. (McDonald's Corporation Case Study, 2012).

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McDonald's Current economic landscape

McDonald's had realized that they are reaching a big maturation stage in the business cycle, based on its profits slowing over the past years in the United States. McDonald's recognized it was time to reinvent or re-image the corporation to going back to start the business cycle over again. According to Deresky (2011) as with McDonald's, a mature product or service with restricted growth in its domestic market often has "new life" in another country, where it is at an earlier stage of its life cycle. Current economic landscape in the McDonald's product area and its country home-base toward expansion opportunities had become limited. McDonald's decided to take advantage of economic of scale by its long-term strategic planning to go international for proactive reasons. Deresky (2011) agreed that when expansion opportunities become limited at home, firms such as McDonald's are often driven to seek expansion through new international markets (p. 200).

McDonald's success is global, with all areas of the world contributing to it. This include the United States adding more than 350 million customers in 2011, Europe generating 40% of McDonald's revenue, and Asia/Pacific, Middle East, and Africa doubling its income contribution to McDonalds's business in the past six years (McDonald's Corporation, 2011).

The Trends in the market

Firms must adapt to their environment to survive. The focus on strategic planning is how to adapt (Derensky, 2011). Finding the trends in market can be done effectively if the environment is examined. Environmental scanning

is the process of gathering information and forecasting relevant trends, competitive actions, and circumstances that will affect operations in geographical areas of potential interest (Deresky, 2011). Several trends have been critical to the quick-service food industry. First, customer were increasingly focusing on value for money spent, forcing competitors in this industry to implement a version of a low-cost menu. Although customers were focused on price, they were also concerned with quality. Health conscious consumers were increasing their demand. McDonald's has followed the market trend carefully by Innovating new healthy menu options with gourmet salads, soups veggie, and turkey burgers. Also as a result of this trend children's menus were revamped with health alternatives. The trends affecting the domestic fast-food industry is evident throughout the world. Value priced menus, healthy food, and premium products were trends overseas also. In foreign lands, McDonald's offered menu items with a distinctively local flavor. This is as a result of demographic and sociocultural trends that are very crucial to this industry. New technological trends have also increased customer convenience, and timeliness of order transactions, as a result, the two lane advance technology to place orders has been designed for customers.

Changes in customer preferences

Moving in line with the ever-changing consumer needs and preferences it has been a key reason for McDonald's continued success. McDonald's has expanded its menu to improve choices for its customers both internationally and locally. Catering for different tastes in different geographies has been at the forefront of McDonald's thinking for some time. The company has local

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offerings than ever before, such as McWraps in Europe, Angus burgers in Australia, and smoothie in the United States. It has also expanded its ranges to give diners greater choice and to adapt to evolving consumer preference. For example in January 2011 the company introduced the BBQ Angus Third Pounder, and six month later the frozen strawberry. McDonald's still has its classic menu items that continue to sell well such as the Big Mac, Double Cheeseburger, and Quarter Pounder with cheese.

McDonald's Corporation current and anticipated competition

It faces competition worldwide with fast-food chains operating through the same system. Yum, owner of chains like KFC, Pizza Hut, Taco Bell, and Long John Silver's is already the world's largest restaurant company by number of system units, with almost 38, 000 system restaurants in more than 110 countries. In addition Burger King, Subway, Wendy's, and homegrown fast food chains modeled after McDonald's like Jollibee in Philippines and Chester's Grill in Thailand are currently McDonald's competition.

McDonald's Corporation is anticipated to compete with Subway. Subway has found a way into attracting the main customer through its concern of weight loss advertisements. The popularity of Subway and the other sandwich segment of the industry is a serious threat to McDonald's and other hamburger chains because more people are concentrating on health and weight loss.

Business Model

McDonald's business model was pioneered by Harry Sonneborn, the chief financial officer under founder Ray Kroc, who wisely saw that McDonald's

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success would come from its real estate, not its fries. For each new store Sonneborn collected a franchisee's deposit for a down payment on the land, and borrowed the rest to build the restaurant. McDonald's first franchise was awarded in Des Plaines, Illinois, in 1955. McDonald's has steadily grown its present dominant position in the fast food restaurant industry, from which the company could sit back and collect rent and royalty checks. Today, 70% of McDonald's 32, 000 restaurant locations are franchises operated by independent operators. McDonald's founder, Ray Kroc, decided that he wanted McDonald's to be more than just a supplier to franchisees; he wanted the McDonald's corporation to maintain quality control over its franchisees. Hence, the plan for McDonald's franchising was born (McDonald's Corporation, 2008).

The McDonald's Franchising Model

In analyzing McDonald's franchise there are key terms and conditions that come to play with regard to individual store franchise fees. For each McDonald's restaurant there is an operator's lease with an assortment of fees and conditions appropriate to that specific restaurant. Table one, shows a portion of the table of contents from the Operator's Lease with various articles. The Operators Lease is a legal document signed by the franchisee that specifically states the rents and fees for that specific McDonald's restaurant. Each individual store will have a separate and specific operator's Lease restaurant. This agreement is based on a 20-year agreement between the franchisee and McDonald's Corporation. There are initial costs that include a one-time payment of \$15, 000 security deposit and the initial franchise fee of \$45, 000. If the franchise is for a McDonald's located in a gas

station or convenience store (called a McDonalds STO), the franchise fee is reduced to \$22, 500. These costs are tied to the Operator's Lease Agreement for each individual store. These fees and deposits are in addition to the purchase price of the actual restaurant.

The purchase price reflects the fair market value paid for an existing restaurant. Although there is no set purchase price, a broad rule of thumb usually sets the purchase price from 50% to 75% of the past annual sales for an existing and established store. For a Satellite McDonald's, the total is \$172, 425 to \$627, 050, for a McDonald's located at a gas station or convenience store, the total is \$837, 750 to \$1. 2 million. The standard new McDonald's restaurant clocks in with an investment total of \$1 million to \$1. 9 million. Each of these includes substantial amounts for working capital. Therefore, a new McDonald's franchise, depending on the model selected, can range from a low of \$172, 425 to a high of \$1. 9 million. With each McDonald's, the factors impacting new restaurant costs are the size of the McDonald's restaurant facility, area of the country, pre-opening expenses, inventory, selection of kitchen equipment, signage, style of decor and landscaping. McDonald's usually requires the franchisee to invest 25% of the negotiated purchase price of a restaurant from personal funds.

The Operator's lease for the Franchise usually includes an ongoing service fee of approximately four percent of the monthly sales/revenues of that particular store. This four percent is used for advertising and marketing. In addition to this four percent, there is an ongoing monthly fee of 8. 5% to 13% of monthly revenues due McDonald's Corporation for use of the building

that is owned by McDonald's. The percentage of rent is also based on McDonald's Corporation owning the land and building for that particular restaurant. This rent percent can be reduced in rare cases in which the franchisee owns the building. There may be a few cases in which the franchisee owns both the building and the land, but it appears McDonald's Corporation usually owns the land and the majority of buildings where McDonald's restaurants are located. Hence, McDonald's has become one of this country's largest real estate holding companies; owning thousands of prime commercial locations throughout the United States. An example of estimated monthly fees is found in Table II (McDonald's Corporation, 2008). The Conventional Franchise is further defined in Table III for purchase of a new restaurant and in Table IV for the purchase of an existing restaurant (McDonald's Corporation, 2008).

Defend the business model

McDonald's makes money from the monthly expenses (percent rent) to the franchisee based on the restaurant's total revenues and not just profits. Each individual McDonald's franchise is carefully researched prior to completion. McDonald's corporation attempts to reduce its corporate risk exposure as much as possible. If the franchise holder is successful, McDonald's corporation is successful. This concept appears to work very well for McDonald's and equally well for the motivated franchisee. Franchising is not for someone looking for an easy way to become a small business owner. In addition to the financial requirements that one must consider when analyzing various franchise opportunities, are numerous other basic requirements McDonald's mandates of anyone attempting to become a

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franchisee of McDonald's. These McDonald's franchise model requirements include such restrictions as not allowing partners (operationally or financially) when purchasing a franchise. There are also extensive training programs that franchisees must complete to become a McDonald's franchisee (McDonald's Corporation, 2008). This training can take up to two years with no compensation to the trainee franchisee. This has as a result made McDonald's Corporation profitable today.

Estimate the return on investment of the business model

Return on Investment (ROI) is used by managers to consider the income on an investment when making decisions. A company's return on investment is the measure of income or profit divided by the investment required to obtain that income or profit (Horngren, Sundem, Stratton, Burgstahler, & Schatzberg, 2008). ROI can be used as a test of profitability. The formula for ROI is $ROI = \text{Net Income} \div \text{Total Assets}$ or Return on Assets (ROA) = $\text{Net Income} \div \text{Total Assets}$.

A franchise disclosure document (FDD) is a legal document that is presented to prospective buyers of franchises in the pre-sale disclosure process in the United States. According to the McDonald's FDD Item 19, the average sales volume of traditional restaurants in the United States open at least one was \$2.4 million in 2010. The highest sales volume for the United States McDonald's in 2010 was \$9.8 million. The lowest performing restaurant sales volume was at \$387,000.

A typical McDonald's restaurant that has been operating for at least one year produces over \$2,000,000 in annual sales, with profits in the low six-figure

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range. Estimating the Net Income = \$129, 000 after expenses and Total Assets = 500, 000 The ROI will be estimated to be 25. 8% for any interested franchisee.

Table Five shows the Return on incremental invested capital (ROIIC) for McDonald's Corporation. ROIIC is a measure reviewed by management over one-year and three-year time periods to evaluate the overall profitability of the business units, the effectiveness of the capital deployed and the future allocation of capital. The numerator is the Company's constant rate (constant rate excludes the impact of foreign currency translation) incremental operating income plus depreciation and amortization, based on a comparison of the current and prior year periods. The denominator is the constant rate weighted average adjusted cash used for investing activities during the two-year period. The ROI as well as return on sales can be improved by decreasing expenses without increasing investment or increasing sales. ROI also can be increased by decreasing assets which will also increase capital turnover (Horngren et al., 2008). Internet Technology

McDonald's Corporation started using a new technological called the cloudOne in 2009. McDonald's selected IBM partner CloudOne, which specializes in taking IBM's rational toolset to the cloud. CloudOne fits the business model of McDonald's Corporation and is used by the company for economical, elastic, and global reasons. Economical -McDonald's saves money and in creating efficiency it used CloudOne, it has its own full-time IT staff operating the software. McDonald's decided to use a do it self-method by turning away what other IT professionals were billing the

company to what the company's IT staff could do for the corporation, as a result saves money and time. Elastic- it scales up and down in direct proportion whatever functions needed. McDonald's can turn to the company's IT staff at any time and can make changes as business changes, it has dynamic datacenter always ready to scale. Global- When any information is put into the system at any time, information immediately becomes available to the team members everywhere.

CloudOne is good to have as McDonald's Corporation used a large team of people working to build products for them all over the world. It will improve collaboration, were others will be able to see what others are doing. This has provided for McDonald's Corporation one common environment for everyone, everywhere, and anytime.

Security of product information

McDonald's Corporation has selected IBM partner CloudOne, which specializes in taking IBM's rational toolset to the cloud and that is all the company does. There are three types of cloud you can build, namely Public clouds, which anyone can connect to example Google, Amazon, and IBM. The second is the Private Cloud; it exists in the four walls of your organization and you manage your own internal resources. The third is the Virtual private clouds, which is neither public nor private, and you connect to your own private datacenter in the cloud. Virtual private cloud is dedicated to an individual Customer; this type is what McDonald's Corporation uses. Security of product information is maintained as neither customer or company knows who is running in any of the cloudOnes.

Conventional Franchise Cost/Expense New Restaurant

The following represents the fees and approximate costs of a new McDonald's restaurant. Size of the restaurant facility, area of the country and style of decoration and landscaping will affect costs. 25 to 40% of the total costs must be funded from non-borrowed personal resources. The remainder may be financed from traditional sources. McDonald's does not provide financing or loan guarantees, nor does it permit absentee investors or partners. Term 20 years – McDonald's Corporation owns land and building

Ongoing Fees A monthly fee based upon the restaurant's sales performance (Currently 4% of monthly sales) plus the greater of a) a monthly fee, or b) a percentage of monthly sales that is at least 8.5%. Initial Costs \$45,000 to McDonald's. Initial fee earned by McDonald's at the time the McDonald's restaurant is ready for occupancy.

\$15,000 Paid to McDonald's and subject to refund. Interest free security deposit for the faithful performance of the franchise, refundable at the expiration of the franchise. \$537,000 Paid to suppliers. Approximate cost of kitchen equipment, signage, seating and decoration, and pre-opening expenses. \$600,000 Approximate Total Cost (40% of the cost must be funded from non-borrowed personal resources. The remainder may be financed). (McDonald's Corporation, 2008)

Conventional Franchise Cost/Expense Existing Restaurant Many new franchisees enter the McDonald's system through the purchase of an existing restaurant business from franchisees of McDonald's. The purchase price reflects the fair market value of the restaurant, and the buyer must invest 25% of the cost from non-borrowed personal resources. Generally,

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there are no costs other than the purchase price and the ongoing fees. The purchase price is usually between 50% – 75% of the stores past annual sales.

Purchasing Costs for an Existing McDonald's Restaurant Common Example

Term – 20 years – McDonald's Corporation owns land and building Ongoing

Fees – Same as for “ new” restaurant

Sale Price of McDonald's Restaurant (Approximate) \$1, 000, 000 Franchisee

must provide 25% of Purchase Price x. 25 From non-borrowed funds

(personal resources) \$250, 000 Franchisee must pay franchise fee \$45, 000

Franchisee must pay security fee \$15, 000

Up-Front Expense to Franchisee \$310, 000 With \$750, 000 Mortgage still remaining

(McDonald's Corporation, 2008) Table Five

One-year ROIIC Calculation (dollars in million)

Years ended December 31, 2011 2010 Incremental change NUMERATOR:

Operating Income \$8, 529. 7 \$7, 473. 1 \$1, 056. 6 Depreciation and amortization 1, 415. 0 1, 276. 2 138. 8 Currency translation (331. 4)

Incremental operational income plus depreciation and amortization \$864. 0

DENOMINATOR

Weighted-average cash used for Investing activities \$2, 311. 7 Currency

translation (11. 3) Weighted-average cash used for investing activities \$2,

300. 4 One-year ROIIC 37. 6% (McDonald's Corporation Annual Report,

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