

Telstra and mcdonalds

Business, Company



Exam cases: • McDonald's • Telstra Pre-seen exam information Semester 1
2013 CPA Program professional level Global Strategy and Leadership © CPA
Australia Ltd 2013 Case Study 1 McDonald's case facts McDonald's
Corporation: A strategic approach to global growth McDonald's Corporation
(McDonald's) is the world's leading global foodservice retailer with more than
33 500 restaurants serving nearly 68 million people in 119 countries each
day (McDonald's 2012a). In 2011 the company generated USD 27 billion in
revenue from its global operations and USD 8.5 billion of operating profit.

Headquartered in the United States, McDonald's Bar-B-Q restaurant was
opened in California in 1940 by brothers Richard (Dick) and Maurice (Mac)
McDonald as a typical drive-in featuring a large menu and car hop service
(where customers stay in their car and are served their food). In 1948 the
brothers closed the business for three months of renovations and
reorganised the business as a hamburger restaurant, using production line
principles and featuring a simple menu of nine items including the staple 15
cent hamburger, cheeseburger, soft drinks, milk, coffee, potato chips and a
slice of pie.

In 1954 Ray Kroc, a salesman for Prince Castle Multi-Mixer, visited the
restaurant intending to sell the brothers some items. Kroc was fascinated by
the operations and learned that the brothers were looking for a franchising
agent to expand their restaurant chain nationally. Kroc joined the company
in 1955 as National Franchising Agent, and opened his first McDonald's in
Illinois. He subsequently purchased the chain from the McDonald brothers.

McDonald's Corporation was created in 1965 when the company had its first
public stock offering on the New York Stock Exchange at USD 22.50 per
<https://assignbuster.com/telstra-and-mcdonalds/>

share (McDonald's 2012b). The famous 'golden arches' of McDonald's were created in 1969 when the company's logo underwent a major change, and remodelling of the restaurants was also undertaken to re-brand the company. The original red-and-white tiled buildings were replaced by more contemporary buildings emphasising the golden arches as the company's branding.

Under Kroc's leadership McDonald's expanded quickly across the United States. International expansion commenced in 1967 with restaurants opened in Canada and Puerto Rico. In the next 10 years the company would grow rapidly, such that the 1978 opening in Japan marked the 5000th restaurant. By 1983 the company had an interest in 7778 restaurants in 32 countries (McDonald's 2012b). Although Kroc died in 1984, he left a lasting legacy with the company continuing to grow to date.

In addition to outlet expansion, McDonald's has constantly trialled and introduced new product items and categories in order to increase the company's share of food consumption and meet changing customer tastes and needs. The company has also extended into complementary product categories, such as the launch of McCafe in 2003. More recently, the company has introduced more premium offerings such as the Angus beef burger in Australia which is made of premium Angus beef, and a higher price is charged compared to its core burger range.

McDonald's is expected to face stronger competition in the future, given the rising popularity of healthier fast-food operators such as Subway, which has a larger number of franchise stores across the world and recently eclipsed McDonald's as the world's largest fast-food operator in terms of

<https://assignbuster.com/telstra-and-mcdonalds/>

establishments. This will increase pressure on McDonald's to promote and expand its new healthier product options and to improve the nutritional content of its food if the company wants to stay the market leader. The following information is based on a number of McDonald's corporate publications.

Part A provides an overview of McDonald's strategic direction and operating model. Part B provides a review of the 2011 Chairman and CEO reports. Part C provides a summary of the franchising model used by McDonald's for its restaurants. Part D is a timeline of the development of McDonald's. Part A: McDonald's strategic direction, operating model and global priorities Strategic roadmap: The Plan to Win Jim Skinner, Vice Chairman and CEO, states in the 2011 Annual Report: ' Our performance is driven by two key factors.

The first is our ongoing commitment to [our strategic framework] the Plan to Win which was launched in 2003 and has served as our operations roadmap for nine years. The Plan focuses on the core drivers of our business—People, Products, Place, Price and Promotion ... It keeps us disciplined around our brand holistically and enhancing the customer experience across our entire business—from our menu and service to our value and convenience' (McDonald's 2011, p. 1). Global Strategy and Leadership Page 1 of 20

McDonald's has ' enhanced the restaurant experience for customers worldwide and grown comparable * sales and customer visits in each in each' year to 2011 (McDonald's 2011, p. 10). This framework has also delivered strong results for the company's shareholders. McDonald's has exceeded its long-term ' financial targets of average annual ... sales growth

of 3 to 5%; average annual operating income growth of 6 to 7%; and annual returns on incremental invested capital in the high teens every year since the Plan to Win was implemented' (McDonald's 2011, p. 0). Operating model: Our System partners The 2011 Annual Report goes on to describe the second factor: ' the collaboration of Our System partners. From our worldclass franchisees, who are dedicated to running great restaurants and being leaders in their communities; to our unparalleled global suppliers, who provide us with safe and high quality products each and every day; to our talented company employees led by President and Chief Operating Officer Don Thompson and our ... global leadership team.

And, of course, our restaurant managers and crew—the 1. 7 million men and women who work to deliver the best experience every day' (McDonald's 2011, p. 2). Also known as the ' three-legged stool' business model, the philosophy set by founder Ray Kroc, this business model balances the interests of all three key stakeholder groups, and provides a foundation only as strong and as stable as each of the three legs. Each leg represents the company, the franchises and the suppliers respectively.

This model is embedded in the current operating philosophy and Jim Skinner, in his address, refers to ' Our System partners' with the motto of ' Your Success is Our Success'. All three groups are strongly aligned around common goals. ' The strength of the alignment between the Company, its franchisees and suppliers ... has been key to McDonald's success' (McDonald's 2011, p. 10). Three global priorities ' We hold a strong competitive position in the market place, and we intend to further

differentiate our brand by striving to become our customers' favourite place and way to eat and drink.

Growing market share will continue to be a focus as we execute our three global priorities' (McDonald's 2011, p. 11). 1 Optimising our menu—' delivering even greater excitement around our food, beginning with our iconic core favorites—Big Mac, Chicken McNuggets and French Fries—and evolving our menu with new innovative local offerings. We'll continue by growing McCafe beverages, from specialty coffees to real fruit smoothies, differentiating our brand as a beverage destination.

We'll stay focused on adding greater choice and balanced options around the world [to enhance our food image], from wraps to oatmeal to new Happy Meal alternatives, as we stay in step with our customers' needs' (McDonald's 2011, p. 2). Modernising our customer experience—' continuing to modernize our restaurants to provide a superior experience for our customers, as well as our managers and crew. We're adding new features and technologies that are making the drive-thru, ordering and payment processes easier.

In addition, we're moving ahead on our reimaging efforts, remodeling a growing number of restaurants with our contemporary new designs. With roughly 45% of our interiors and 25% of our exteriors reimaged around the world, we still have ample opportunity to keep reshaping our brand and delighting our guests with our updated restaurants' (McDonald's 2011, p. 2).

' The customer experience efforts will include accelerating our interior and exterior reimaging efforts and providing our restaurant teams with the appropriate tools, training, technology and staffing' (McDonald's 2011, p. 1).

3 Broadening our accessibility—' making the McDonald's brand more

<https://assignbuster.com/telstra-and-mcdonalds/>

accessible is another important priority. Continuing to deliver strong value across every price tier, extending our operating hours at more locations and strategically opening new restaurants in both emerging and mature markets will make us more available more often, when and where our customers want us' (McDonald's 2011, p. 3).² ' As we keep elevating all of these aspects of our business, we're strengthening our brand as well. We will continue to use our size, scope and resources to make a positive difference for children, families, and communities around the world. Giving back is a part of our heritage, so we remain committed to taking leadership action across the broad spectrum of sustainability— including nutrition and well-being, a sustainable supply chain, environmental responsibility, employee experience, and the community' (McDonald's 2011, p. 3). * ' Comparable' refers to same stores. That is, stores that were opened in both years, so as to remove the effect of store openings and closures. This is a common method for monitoring store performance in retail networks.

Global Strategy and Leadership Page 2 of 20 Part B: McDonald's 2011 performance Jim Skinner, Vice Chairman and CEO, states in the 2011 Annual Report: ' 2011 was another strong year for McDonald's. Global comparable sales increased 5.6%, our ninth consecutive year of same store sales growth. Operating income grew by 10% in constant currencies and we continued to extend our market share lead around the world. In addition ... we delivered a 35% total return to investors, making us the top performing company in the Dow Jones Industrial Average for 2011' (McDonald's 2011, p.). ' Specific menu pricing actions across our system reflect local market conditions as well as other factors, notably the food away from home and

food at home inflation indices. In our Company-operated restaurants, we manage menu board prices to ensure value at all price points, increase profitability and mitigate inflation, all while trying to maintain guest visit momentum. In order to accomplish these objectives, we utilize a strategic pricing tool that balances prices, product mix and promotion. Franchisees also have access to, and many utilize, this ... tool.

In general, we believe many franchisees employ a similar pricing strategy. In 2011, we increased average price at Company-operated restaurants in each area of the world, although increases varied by market and region. We look to optimize product mix by utilizing a menu with entry-point value, core and premium and fourthtier (a range of tasty and appealing items in smaller portion sizes) offerings. We also introduce new products that meet customer needs, which can expand average purchase and increase our visitor counts' (McDonald's 2011, p. 10). ' Our success continues to be truly global, with all areas of the world contributing.

Such balanced growth highlights our deepening connection with customers everywhere, as well as the underlying strength of our business in today's ever increasing global economy' (McDonald's 2011, p. 1). The company is organised into three key regions being ' the United States (U. S.), Europe and Asia/Pacific, Middle East and Africa (APMEA)'. The company's three global priorities ' represent areas where we are intensifying our efforts to drive ... sales and customer visits despite challenging economies and a contracting Informal Eating Out (IEO) segment in many markets' (McDonald's 2011, pp. & 10). Tables 1 and 2 provide a summary of the performance of McDonald's for the years 2009 to 2011. Table 1: McDonald's financial

performance, 2009 to 2011 (USD in millions)

| | 2011 | US | Europe | APMEA | Other countries and corporate |
|---------------------------|--------------|---------|---------|---------|-------------------------------|
| Total revenue | 27 006.0 | 3 666.2 | 3 226.7 | 1 525.8 | 111.0 |
| Total operating income | 10 865.5 | 1 201.5 | 1 019.5 | 529.7 | 86.5 |
| Total assets | 2010 8 111.6 | 9 569.2 | 5 065.5 | 1 130.1 | 614.1 |
| Total capital expenditure | 2010 8 111.6 | 9 569.2 | 5 065.5 | 1 130.1 | 614.1 |

Source: Adapted from McDonald's (2011), 2011 Annual Report, 'Segment and geographic information', p. 38. Global Strategy and Leadership

Page 3 of 20 McDonald's 'revenues consist of sales by Company-owned restaurants and fees from restaurants operated by its various franchisees'. Revenues from franchised, licensed and affiliate restaurants include rent and royalties based on a percentage of sales along with minimum rent payments, and initial fees. 'Fees vary by type of site, amount of Company investment, if any, and local business conditions. These fees, along with occupancy and operating rights, are stipulated in the franchise/license agreements' (McDonald's 2011, p. 9).

Table 2: McDonald's revenue by store type, 2009 to 2011 (USD in millions)

| | 2011 | US | Europe | APMEA | Other countries and corporate |
|---------------------------|---------|---------|----------|-------|-------------------------------|
| Company-operated revenues | 4 409.0 | 3 892.2 | 30 224.9 | 659.4 | 859.3 |
| Franchised revenues | 4 409.0 | 3 892.2 | 30 224.9 | 659.4 | 859.3 |
| Total revenues | 4 409.0 | 3 892.2 | 30 224.9 | 659.4 | 859.3 |

433 7 852 5 061 947 18 293 4 096 3 034 958 625 8 713 8 529 10 886 6 019
1 572 27 006 2010 4 229 6 932 4 297 775 16 233 3 883 2 637 769 553 7
842 8 112 9 569 5 066 1 328 24 075 2009 4 295 6 721 3 714 729 15 459 3
649 2 553 623 461 7 286 7 944 9 274 4 337 1 190 22 745

Source: Adapted from McDonald's (2011), 2011 Annual Report, 'Revenues', p. 14. Regional highlights for 2011 United States • • • Grew customer counts and market share with comparable sales up for the ninth consecutive year, rising 4.8% in 2011, while comparable customer counts rose 3.3%, despite a slight decline in the IEO segment'. 'Remained focused on maximizing our core business while providing customers with affordable products and value throughout our menu including options available on the Dollar Menu at breakfast and the rest of the day'. Highlighted core menu items like Chicken McNuggets that feature new sauces, breakfast products including new Fruit & Maple Oatmeal, additions to the McCafe beverage line and limited-time offerings such as the McRib Sandwich. 'National launch of the McCafe Frozen Strawberry Lemonade and Mango Pineapple real-fruit smoothie provided ... extensions to the McCafe beverage line'. 'Convenient locations also continued to provide a competitive advantage with extended hours and efficient drive-thru service'. Modernizing the customer experience ... with the expansion of our major remodeling program to enhance the appearance and functionality of our restaurants and make our restaurants more relevant to our customers' daily lives. Over 900 existing restaurants were remodeled during 2011 with the majority adding drive-thru capacity to capture additional customer visits'. 'Completed our two-year, Systemwide roll-out of a new point-of-sale system. This allows us to continue expanding

our menu offerings while making it easier for our crew to fulfill every order accurately' (McDonald's 2011, p. 10). • • • • Global Strategy and Leadership Page 4 of 20 Europe • • Comparable ' sales rose by 5. 9%, marking the eighth consecutive year' of growth, with comparable customer visits increasing by 3. 4%. ' Major contributors were the U. K. , France, Russia and Germany'. ' Initiatives that helped drive our business included ... our tiered menu featuring everyday affordable prices, menu variety including new and limited-time offerings, and reimagining over 900 restaurants'. We also ' offered new premium menu items such as the 1955 burger and expanded McWraps across several European markets'. And we ' continued to offer a fourth-tier platform—such as Little Tasters in the U.

K. '. Expanded ' our coffee business and have over 1500 McCafe locations, which in Europe are generally separate areas inside the restaurants that serve specialty coffees, indulgent desserts and snacks'. Increased ' accessibility and convenience' with the completion of ' the rollout of the new drive-thru customer order display system in over 4500 restaurants' and ' extended operating hours'. Continued ' building customer trust in our brand through communications that emphasized the quality and origin of McDonald's food and our commitment to sustainable business practices' (McDonald's 2011, p. 0). • • • APMEA • • ' Our momentum continued with nearly every country delivering positive comparable sales, led by China and Australia. Comparable sales rose 4. 7% and comparable guest counts by 4. 3%'. Performance was ' driven by strategies emphasizing value, breakfast, convenience, core menu extensions, desserts and promotional food events. Australia launched a Value Lunch program that features meals at discounted

price points for certain hours while China and Japan concentrated on affordability by continuing their Value Lunch' programs. New menu items such as real-fruit smoothies and frappes in Australia and the extension of the Value Breakfast program in China were popular with customers'. ' Japan executed another successful U. S. themed burger promotion and celebrated its 40th anniversary by offering popular core menu items at reduced prices'. ' Desserts continue to play a meaningful role as we seek to deliver on customers' menu expectations through products such as the McFlurry and unique storefronts like the dessert kiosks in China, where we are now one of the largest ice-cream retailers' (McDonald's 2011, pp. 10-11). • • •

Part C: McDonald's franchising approach McDonald's believes ' franchising is important to delivering great, locally-relevant customer experiences and driving profitability. However, directly operating restaurants is paramount to being a credible franchisor and is essential to providing Company personnel with restaurant operations experience. In our Company-operated restaurants, and in collaboration with franchisees, we further develop and refine operating standards, marketing concepts and product and pricing strategies, so that only those that we believe are most beneficial are introduced' (McDonald's 2011, p.). The company continually reviews, and as appropriate adjusts, the mix of company-operated and franchised (conventional franchised, developmental licensed and foreign affiliated) restaurants with the ' goal of improving local relevance, profits and returns', while maintaining a strong presence through company-owned restaurants seen as important to success (McDonald's 2011, p. 16). As a franchisor McDonald's sees its role as providing clear and positive leadership with

vision, competence and integrity, to ultimately protect the strategic vision of the brand.

Listening and responding to customers' wants and needs through constant innovation has been a key driver to success. This success places pressure on all Partner System parties who have a responsibility to consistently rise to the occasion each time and deliver an exceptional customer experience. As McDonald's must deliver this leadership as the franchisor, it needs its franchisees to do the same for the company's continued success. The mix of McDonald's franchises and company-operated McDonald's restaurants is set out in Table 3.

The difference between types of franchise stores is outlined in the 'Franchise investment' section below, and is dependent on how much capital investment McDonald's has in the business. Global Strategy and Leadership Page 5 of 20 Table 3: Summary of McDonald's stores in 2011

| Store type | Conventional franchise | Company operated | Licensed to foreign affiliates (primarily in Japan) | Development franchise | Total worldwide stores | Number of stores |
|------------|------------------------|------------------|---|-----------------------|------------------------|------------------|
| | 19 527 | 6 435 | 3 929 | 3 619 | 33 510 | |

Franchise 'sales are not recorded as revenues' by McDonald's, but 'are the basis on which the Company calculates and records franchised revenues and are indicative of the health of the franchise base' (McDonald's 2011, p. 9). 'Franchised margin dollars represent revenues from franchised restaurants less the Company's occupancy costs (rent and depreciation) associated with those sites ... The franchised margin percent in APMEA and Other Countries ... is higher relative to the U. S. and Europe due to a larger proportion of developmental franchises and/or affiliate restaurants where the Company

receives royalty income with no corresponding occupancy costs' (McDonald's 2011, pp. 15–16). Table 4 presents franchised sales and margins for the years 2009 to 2011. Table 4: McDonald's franchised store sales and margins, 2009 to 2011 (USD in millions)

| | 2011 US | 2011 Europe | 2011 APMEA | 2011 Other countries and corporate | Total franchised sales |
|------------------------------------|---------|-------------|------------|------------------------------------|------------------------|
| 2011 US | 28 166 | 15 049 | 11 373 | 6 559 | 61 147 |
| 2011 Europe | 3 239 | 2 063 | 686 | 476 | 6 464 |
| 2011 APMEA | 26 737 | 14 573 | 9 871 | 5 747 | 56 928 |
| 2011 Other countries and corporate | 3 031 | 1 998 | 559 | 397 | 5 985 |
| 2009 | 29 739 | 17 243 | 13 041 | 7 625 | 67 648 |
| 2010 | 28 166 | 15 049 | 11 373 | 6 559 | 61 147 |
| 2011 | 28 166 | 15 049 | 11 373 | 6 559 | 61 147 |

Franchised margins Source: Adapted from McDonald's (2011), 2011 Annual Report, p. 5.

Selection of franchisees for a cultural fit with McDonald's One of the key reasons McDonald's believes it is successful is that it maintains the highest standards of operational excellence while creating individual opportunities. Having dynamic individuals who are able to create high performance environments within their local stores is crucial for franchisee success. Franchisees must also be great brand ambassadors and run outstanding restaurants to deliver on the McDonald's brand promise. Global Strategy and Leadership Page 6 of 20 For example, great care is taken in recruiting, screening, training, developing and retaining qualified franchisees.

When considering potential franchisees, the company looks for people who • • • • • are looking to make a 20-year commitment; aspire to become an integral part of the community as an employer, service provider and local business leader; are energetic and take a hands-on approach; have had a successful business or career, demonstrated significant team leadership and know how to get the most out of people; accept that McDonald's will be the franchisee's only business, and the franchisee must be prepared to put

in hard work and long hours to make it a success; will commit themselves to being full time in the business rather than an absentee investor; and are able to make a significant financial investment. McDonald's provides extensive training and ongoing support to franchisees. Franchisee candidates must complete the McDonald's Applicant Training Program which goes for a minimum of nine months full time and is unpaid. This is a comprehensive program designed to provide training in all aspects of operating a McDonald's restaurant and to assist McDonald's in evaluating a franchisee applicant.

It also allows the applicant to evaluate McDonald's and get a true understanding of what it takes to run a restaurant. Most of this training takes place in a restaurant, with some formal classroom sessions which include seminars, conferences and one-on-one sessions with corporate staff. It is essential that they agree to the philosophy of working within the framework of the McDonald's system. McDonald's is looking for people who are prepared to follow a proven system—one based on 50 years of experience. Franchisees are advised that if they are not good at taking advice, they should not become a McDonald's franchisee. McDonald's does not 'expect franchisees to re-invent the wheel', but 'to make it turn faster' (McDonald's NZ 2012, p. 3).

Franchisees must operate the franchise according to McDonald's quality, service, cleanliness and value standards. In addition, franchisees must use McDonald's • • • • • formulae and specifications for menu items; methods of operation, approved suppliers, inventory control, bookkeeping, accounting and marketing; trademarks; concepts and restaurant design, signage and

equipment layout; and information systems. Franchise investment Under the conventional franchise agreement, franchisees provide a portion of the capital required by initially investing in the equipment, signs, seating and decor of their restaurant business, and by reinvesting in the business over time.

The company owns the land and building or secures long-term leases for both company-operated and conventional franchised restaurant sites. This maintains long-term occupancy rights, helps control related costs and assists in alignment with franchisees. In certain circumstances, the company participates in reinvestment for conventional franchise restaurants. Under developmental franchise arrangements, franchisees provide capital for the entire business, including the real estate interest, and the Company has no capital invested. In addition, the company has an equity investment in a limited number of affiliates that invest in real estate and operate and/or franchise restaurants within a particular market where foreign ownership may be restricted, such as Japan and China.

As a matter of policy, McDonald's does not make direct sales of food or materials to franchisees, instead organising the supply of food and materials to restaurants through approved third-party logistics operators. For successful applicants, the franchisee must make a substantial financial contribution to the business, summarised as follows in Table 5 for an Australian franchise. Global Strategy and Leadership Page 7 of 20 Table 5: Example of McDonald's Australia franchisee investment and ongoing contribution

| Term of franchise | Ongoing fees | 20 Years | A monthly |
|-------------------|--------------|----------|-----------|
|-------------------|--------------|----------|-----------|

service/royalty fee based on a percentage of the restaurant's gross sales (currently 5%).

A monthly rental, being a fixed base rent and a percentage of the restaurant's gross sales. A monthly advertising contribution of not less than 4% of gross sales. All outgoings including rates and utilities. Initial costs Licence fee paid to McDonald's on or prior to the commencement of the franchise. Stamp duty may be payable on the documentation (stamp duty laws vary from state to state so franchisees must obtain their own legal advice). Security deposit for the performance of the franchise. Documentation fee. Approximate cost of staff training, salaries, purchase of trading stock, living expenses whilst training and other start-up expenses.

Approximate cost of kitchen equipment, signage, seating, decor, air conditioning and landscaping (paid to suppliers). AUD 15 000 AUD 3 000 AUD 160 000–AUD 200 000 (indicative) AUD 1. 7 million (indicative) AUD 60 000 plus GST Source: Adapted from McDonald's Australia (2012), ' Becoming a key ingredient in our success: McDonald's Australia franchising overview', p. 6. In addition, a franchisee must maintain a maximum of 75 per cent debt to assets ratio for the entire term of their franchise agreement. Hence, McDonald's will not allow borrowings to be more than 75 per cent of the total asset value of the restaurant. If purchasing an existing restaurant, McDonald's will not permit the purchaser to borrow more than 75 per cent of the McDonald's agreed valuation.

These stringent financial requirements are to ensure a sustainable return for the franchisee and the long-term viability of the restaurant for McDonald's. In 2011, McDonald's total revenue from franchisees was USD 8. 7 billion, <https://assignbuster.com/telstra-and-mcdonalds/>

comprised as follows in Table 6. Table 6: McDonald's Corporation revenues from franchised restaurants, 2009 to 2011

| Year | Rents | Royalties | Initial fees | Total franchised sales |
|------|----------|-----------|--------------|------------------------|
| 2009 | 4 841. 0 | 2 379. 8 | 65. 4 | 7 286. 2 |
| 2010 | 5 198. 4 | 2 579. 2 | 63. 7 | 7 841. 3 |
| 2011 | 5 292. 8 | 2 929. 8 | 64. 9 | 8 226. 5 |

Source: Adapted from McDonald's (2011), 2011 Annual Report, p. 35. Global Strategy and Leadership Page 8 of 20 Part D: A timeline of McDonald's development

When 1940 1948 1949 1955 1958 1959 1962 1963 1965 1966 1967 1968 1971 1973 1974 1975 1978 1979 1981 1983 1987 1990 1996 2000 2002 2003 2006 2008 2009 2010 2011 2012

Milestone Dick and Mac McDonald open McDonald's Bar-B-Q restaurant in California, US, with a large menu and car hop service Restaurant closes for three months of renovations and re-opens as a self-service, drive-in restaurant French fries replace potato chips on the menu, triple-thick milkshakes make their debut Ray Kroc becomes National Franchising Agent and opens McDonald's franchise in Illinois, US The 100 millionth hamburger is sold The 100th restaurant is opened in Wisconsin, US McDonald's in Denver, Colorado, US, becomes the first restaurant with inside seating The 500th McDonald's opens in Ohio, US First public stock offering at USD 22. 50 per share; 700 McDonald's restaurants throughout the US First TV commercial. Ronald McDonald appears in his first US TV commercial, appearing on a flying hamburger in one-minute colour spots on the NBC and CBS networks McDonald's goes international—the first international restaurants open in Canada and Puerto Rico The Big Mac, developed by an owner/operator in Illinois, US, is added to the national menu Ronald McDonald gets new friends—Hamburglar, Grimace, Mayor McCheese, Captain Crook and the Big Mac join Ronald McDonald in McDonaldLand

Quarter Pounder with cheese is added to the menu First Ronald McDonald House opens in Philadelphia, US Breakfast at McDonald's—the Egg McMuffin, created by owner/operator from Santa Barbara, California, US, added to national menu The 5000th restaurant opens in Japan Happy Meals debut to coincide with the International Year of the Child First restaurants open in Spain, Denmark and the Philippines 7778 restaurants by year end in 32 countries Fresh salads added Moscow, Russia, restaurant opens McDonalds.com launched Fruit 'n Yoghurt Parfait introduced McHappy Day first held—20 November 2002 designated as World Children's Day, with McDonald's donating USD 1 from every Big Mac sold to children's charities worldwide Plan to Win strategic framework launched Snack Wrap introduced—grilled and crispy chicken wraps Global packaging redesign, focused on environmentally friendly and common packaging worldwide McCafe goes national in US.

McCafe coffees including lattes, cappuccinos and mochas added to menu McCafe Real Fruit Smoothies and Frappes introduced Opens restaurants in Bosnia and Herzegovina, Trinidad and Tobago—now operates in 119 countries Shamrock Shake, a mint green milkshake which was launched in 1970 and sold on St Patrick's Day only, now added to menu and sold all year round in US Source: Adapted from McDonald's (2012b), 'Our company, McDonald's history' (accessed February 2013). End of Case Study 1 case facts. Global Strategy and Leadership Page 9 of 20 Case Study 2 Upwardly mobile: The Australian mobile telecommunications carrier industry A Introduction—Mobile telecommunications around the world The global mobile telecommunications carrier industry is one of the largest

globalcommunicationsectors, with global revenue growing at around 5 per cent annually. Mobile telecommunications is now an established industry separate from the broader telecommunications industry.

This industry has over six billion users worldwide and about USD 970 billion in annual revenue (Vodafone 2012). The industry comprises companies, known as carriers, who provide mobile telephone services to business and consumer customers. The global industry has several major segments including mobile voice, text and data services. Having experienced fast growth over the last 30 years, mobile voice and text services have reached maturity in the developed markets of Europe and the United States. This maturation is primarily due to increasing competitive and regulatory pressures 1 that have lowered prices, together with the slower pace of economic activity.

Global emerging markets, such as those in Asia and Africa, are experiencing strong demand for traditional voice and text services as mobile phone penetration grows in tandem with economic growth. In contrast, the increasing demand for data services is providing strong growth in the developed markets. For example, in 2006, data services accounted for 6 per cent of mobile telecommunications carrier revenue, whereas in 2011 they accounted for 20 per cent and are expected to rise further over the medium term. Demand for data services is driven by the higher penetration of ‘ smartphones’ that integrate voice, text and multimedia messages, with internet, musicandsocial networking(e. g. iPhones), combined with significant enhancements to network data speed and coverage, and an increased range of mobile applications (Vodafone 2012).

Data services are forecast to be the strongest growing segment of the global mobile telecommunications carrier industry, with estimates that, from 2011 to 2016, worldwide mobile data revenue will grow by USD 142 billion, compared to a USD 27 billion decline in voice revenue over the same period (Vodafone 2012). Another key driver of growth in developed markets globally is technological innovation in the form of upgraded networks 2 and innovative products and services. Innovations in technology are also bringing new competitors in the form of internet service providers (ISPs) and software companies who offer converged services such as Voice over Internet Protocol (VoIP; services (e. g. Skype) which provide internet transmission of voice communications).

Japan is a global leader in many aspects of telecommunications, and the Japanese Government has played a strong role in shaping the development of the telecommunications industry. Japan has ‘ one of the world’s leading mobile telecommunication markets, not only in terms of size but also in terms of innovation and its ability to be early with the introduction of advanced technologies’ (Budde 2012a). The trends in the Japanese market suggest ongoing competition on price and the importance of continual product and service innovation such as cloud-computing services and online storage, which encourage greater data usage by allowing users to store data on shared (‘ cloud’) servers rather than mobile devices.

Similarly, South Korea is a leader in the global mobile telecommunications industry, with strong government support to help transform that country into the knowledge era. The industry has experienced strong growth and a trend toward value-added products and services. This growth is coming at the

decline of traditional fixed line services. For example, in the United States about 22 per cent of households are mobile only and do not have a fixed line, whereas in Australia about 14 per cent of households are mobile only—up 2 per cent from the previous year and suggesting an ongoing trend away from fixed line to mobile-only households (Bartholomeusz 2012).^{1 2} Regulators continue to impose policies to lower the cost of access to mobile networks through setting lower mobile termination rates (the fees mobile companies charge for calls received from other companies' networks) and to limit the amount that operators can charge for mobile roaming services' (Vodafone 2012, p. 18). A mobile network is a number of transceivers or base stations located across an area of land that provide radio frequency coverage for the transmission of voice and data signals between communication devices such as smartphones. Global Strategy and Leadership Page 10 of 20 B The Australian mobile telecommunications carrier industry

Australia's mobile telecommunications carrier (AMTC) industry is one of the most profitable industries in the broader Australian telecommunications sector, with revenue of AUD 20 billion in 2011-12. The industry is made up of carriers who supply, operate and maintain mobile telecommunication network services that deliver communications through the airwaves rather than through fixed copper or fibre cables. Consistent with the trend in the global industry, the AMTC industry is moving toward the maturity stage of its life cycle, with some segments in the industry expanding faster than the Australian economy as technology drives growth through network upgrades and innovative products.

The industry currently has over 30 million mobile phone subscribers in Australia, with mobile phone penetration level at around 90 per cent (ACMA 2011a), or 130 per cent when customers with multiple SIM and mobile broadband cards are included (Shulman 2012b, p. 7).¹ AMTC industry products and services Growth in the industry has shifted from mobile voice communications to data transmission services, such as multimedia messaging service (MMS), mobile TV and internet, music streaming, interactive gaming and global positioning system (GPS) mapping. Smartphones have enabled the convergence of the industry with this growing range of products and services functional on the one device. Revenue for the major segments is set out in Table 1, with key segments discussed.

Table 1: AMTC industry revenue by segment (AUD in millions) Year 2005–06

| | (a) 2006–07 | (a) 2007–08 | (a) 2008–09 | (a) 2009–10 | (a) 2010–11 | (a) 2011–12 | (a) 2012–13 | (f) 2013–14 | (f) 2014–15 | (f) 2015–16 | (f) 2016–17 | (f) 2017–18 |
|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Equipment | 990 | 1 190 | 1 330 | 1 650 | 1 990 | 2 090 | 2 603 | 2 750 | 2 810 | 2 900 | 3 100 | 3 300 |
| Voice | 10 010 | 9 790 | 9 490 | 9 150 | 8 800 | 8 450 | 7 210 | 6 120 | 5 450 | 4 690 | 4 010 | 3 450 |
| Messaging | 1 090 | 1 450 | 1 862 | 2 060 | 2 450 | 2 940 | 3 405 | 3 450 | 4 040 | 4 600 | 4 900 | 5 450 |
| Non-messaging data | 320 | 650 | 1 290 | 2 100 | 3 020 | 4 050 | 5 608 | 6 420 | 7 300 | 8 200 | 8 990 | 10 032 |
| Mobile commerce | 310 | 390 | 560 | 760 | 900 | 1 010 | 1 204 | 2 270 | 2 550 | 3 800 | 4 280 | 5 349 |
| Total industry | 12 720 | 13 470 | 14 532 | 15 720 | 17 160 | 18 540 | 20 030 | 21 010 | 22 150 | 24 190 | 25 280 | 27 581 |

Note: (a) = actual, (f) = forecast. The figures provided in this table are simulated. a

Equipment The sale of handsets and other mobile devices provides a significant and growing share of industry revenue, driven by innovations in high-value smartphones and tablets (mobile computers such as iPads and Kindles that are operated primarily by touchscreen).

b Voice Voice services, made up of call charges and access fees, generated the largest source of revenue in the industry in 2011-12. This segment has benefited from the migration of consumers from fixed services (landlines) to mobile services as adoption of mobile technology has become widely accepted. However, the segment has become saturated and commoditised, 4 and is now in the decline stage of its product life cycle. In order to reduce customer ‘ churn’ (loss of customers to rival carriers), there has been a trend to offer capped plans with free call minutes and message services.

This trend has resulted in decreasing average revenue per user (ARPU) and hence voice revenue as a 3 4 SIM (subscriber identity module) and mobile broadband cards store and verify the identity of the mobile phone user. ‘ Commoditised’ means the price of a product or service falls as it become widely available and standardised. Global Strategy and Leadership Page 11 of 20 proportion of total mobile revenue has fallen during the last five years. This decrease is expected to continue as competition in the voice segment continues to intensify, and as consumers continue to switch to mobile VoIP and the Worldwide Interoperability for Microwave Access (WiMax 5) mobile broadband system.

Messaging The increasing demand for text/SMS (short message service) and MMS has provided major growth for the industry over the last five years, as consumers switch from voice calls to these types of communications. As well as individual use, businesses are increasingly using

SMS as a form of customer communication. d Non-messaging data Technological innovations in the form of new generation networks and integrated handset products have driven strong growth in the demand for, and use of, non-messaging data (ACMA 2011b). Non-messaging data includes mobile internet, media updates, music streaming, mobile TV, gaming and GPS mapping (Shulman 2012b, p. 15). This growth is expected to continue through to 2016-17, boosted by the proliferation of high data usage devices such as smartphones and tablets (Shulman 2012b, p. 15).

Mobile carriers have enabled the growth of non-messaging data through the provision of mobile broadband that has enabled high-speed internet access to mobile devices, increased data usage allowances, and access to a variety of content. e Mobile commerce Mobile commerce (M-commerce) refers to commercial transactions, typically payment services, between customers and merchants that are operated on mobile devices such as smartphones or tablets. M-commerce provides customers with a convenient and accessible service for making transactions. Applications include mobile banking services, buying goods and services, and paying for car parking, flights and concert tickets (Shulman 2012b, pp. 15-16).

M-commerce is predicted to provide a source of revenue growth in the AMTC industry, as consumers increasingly make these transactions using their mobile devices rather than desktop or laptop computers. 2 AMTC industry trends Australia is an advanced country in terms of mobile telecommunications. About 90 per cent of adults own a mobile phone, with a high level of smartphone penetration with about 37 per cent of mobile phone subscribers using a smartphone (ACMA 2011b). Following in the steps of the

global industry, the AMTC industry is transforming into a digital era of new generation networks, increasing data usage, and innovative mobile devices such as smartphones and tablets.

Industry growth is underpinned by the fact that mobile phones, and in particular smartphones, have become the primary means of communication in Australia. This growth has also been driven by lower prices that have commoditised voice services and tightened business margins. Network upgrades Mobile network technologies and infrastructures provide a set of standards for mobile devices and telecommunication services that comply with international standards. Periodically these network technologies are upgraded to a new generation. Each new generation of mobile technology is typically characterised by different frequency bands, wider bandwidth and improved data transmission rates. The improving availability and coverage of upgraded carrier networks has driven increased demand in the industry.

The progression from second generation (2G) to third generation (3G) networks, and the rollout of fourth generation (4G) from 2011, continues to invigorate industry growth with superior functionality and lower data transmission prices, leading to increased demand. 6 The rollout of 4G technology will enable a variety of data services, such that revenue from data is forecast to outweigh revenue from voice over the years to 2016–17 (Shulman 2012a, p. 4). 5 6 WiMax is a fourth generation mobile broadband system that provides data speeds of up to 1 gigabyte per second, and data exchanges across greater distances. WiMax applications include mobile broadband connectivity between cities and countries, and are an alternative to cable and digital subscriber line (DSL) for ‘last mile’ broadband access to

customers. G, introduced in Australia in 1987, was an analogue network that was superseded by the 2G digital network from 1993. 2G offered data services (e. g. texting), and improved network capacity and data security. 3G commenced in 2005, with enhanced speed and services, including internet connectivity, MMS and music/video downloads. (Next G is a Telstra 3G network.) 4G commenced rollout in 2011 and is designed especially for data transmission, with faster speeds and reduced network congestion that let users access fast internet connection, high definition TV and video conferencing from their mobile devices. GSM is one of the early, very basic, networks. Global Strategy and Leadership Page 12 of 20

Wireless networks now cover 99 per cent of the Australian population. Telstra was the first telecommunications company in the world to build a nationwide 3G network. More broadly, the rollout of 4G, combined with the implementation of the Australian Government's AUD 43 billion National Broadband Network (NBN), 7 will speed the entry of the Australian economy into the digital era. This in turn will embed the importance of telecommunication services in the activities of consumers and businesses. b Data consumption Improvements in mobile and smartphone technologies have underscored a shift in demand from voice traffic to data traffic, 8 including messaging, non-messaging data and M-commerce.

The development and widespread uptake of applications for mobile devices, in particular smartphones, has generated large revenue gains in non-messaging data. Australia has the third highest penetration of 3G handsets, behind only Japan and South Korea (ACMA 2011a). Online banking, internet browsing and video streaming from sites such as YouTube and live sports

websites have contributed significantly. According to Shulman (2012a, p. 4), this trend will continue to 2016–17, with data becoming the primary source of industry revenue. A second key driver of this trend to data traffic is improved network capacity and functionality and cheaper data prices, which are helping to drive strong growth in data consumption.

Faster speeds and lower data prices are supporting ‘new value added features for mobile phones and will improve the functionality of Internet connectivity via a wireless data card. This will further increase bandwidth usage as internet browsing, mobile applications (apps [software that allows users direct access to content or websites such as banking, shopping, entertainment, and social networking]), mobile TV and M-commerce are all forecast to grow concurrently with accelerating network speeds’ (Shulman 2012b, p. 9). The rollout of 4G is expected to provide a further boost to data consumption from mobile and data cards, with the advent of demand for super-fast mobile services. c Convergence Advances in technology have broken down industry barriers in the telecommunication sector.

The bundling of products and services is now an industry standard. Voice, video, transaction, media and information services are packaged together on mobile devices. Smartphones in particular have driven the convergence of communication products and services in the AMTC industry. Overseas trends suggest that industry convergence will continue as the importance of data increases and the distinction between ISPs and mobile telecommunication carriers dissolves. The global trend is for companies that previously operated in non-telecommunication industries, such as cable operators, mobile-TV

technology providers, content owners and search providers, to look to move into the telecommunications sector.

To gain greater control over the supply chain major market, participants will want to fully integrate and operate across key distribution channels. This will necessitate that the wired and mobile markets coexist within the media, IT and communications sectors (Shulman 2012a, p. 10). While convergence will drive growth in the AMTC industry, it will also increase the level of competition and hence have a neutral impact on profitability. d Consumer behaviour As the segment composition of the industry has changed over time, so has customer behaviour towards carriers. Mobile communication consumers select a carrier to provide their mobile telecommunication needs.

Portability of mobile phone numbers means that a consumer can take their number with them if they change from one carrier to another. Consumers can sign up with a carrier with either a prepaid or postpaid plan. 9 With the proliferation of higher functionality smartphones, there is a trend from prepaid to postpaid subscription by consumers. This shift will increase ARPU, which is currently AUD 61 for postpaid subscribers versus AUD 18 for prepaid subscribers. The Generation Y demographic (18–35 year olds) will produce increasing ARPU over the years to 2016–17 as they take up postpaid contracts for access to high cost and high value 3G- and 4G-enabled smartphones and use significant data services.

Growing consumer understanding and acceptance of mobile devices, and the variety of mobile data services available, will support greater demand in the industry. Smartphone penetration and turnover is higher in the Generation X and Y demographics (people born between 1966 and 1994), as these groups

look for new features and products. These trends are significant, given that the Generation X and Y demographics are the largest in Australia, making up over one-third of the population. 7 8 9 The NBN involves the rollout of fibre-to-the-home (FTTH), or high-speed fixed-wire broadband, to 93 per cent of premises in Australia. Data traffic is a term used to describe the transmission and flow of data. This includes messaging, non-messaging data and mobile commerce. Prepaid plans have a contract period (e. g. 4 months) and the consumer pays in advance per month for a set amount of value for calls, SMS and mobile internet data. When the limit is reached, usage is restricted or charged at substantially higher rates. Postpaid plans are usually monthly contracts that provide a set amount of value which can be exceeded and charged at the same rate and which the customer pays in arrears. Global Strategy and Leadership Page 13 of 20 An increasing proportion of Australians now have a range of communication devices and options, with a shift from fixed to mobile voice and data. Young Australians in particular are choosing to communicate using mobile devices or social networking via their computers or laptops, smartphones and VoIP.

According to ACMA, ‘ gender, age and location appear to be primary drivers of the shift towards mobile phone-only living, with males, those aged 25–34 years, and people residing in metropolitan areas of Australia most likely to not have a fixed-line telephone in the home’ (ACMA 2011a, p. 17). With the growing range of voice and data communication devices comes a greater dependency of households and businesses as they subscribe to these mobile services: ‘ The all-encompassing product range is allowing a growing number of consumers, sole proprietors and small businesses to rely solely on wireless

services for delivering all their communication needs. Such dependency is facilitating a boom in mobile usage' (Shulman 2012a, p. 7). Government oversight Historically, the Australian telecommunications sector was subject to strong government controls and monopoly structures protected by legislation in the form of Telstra (formerly Telecom Australia, renamed Telstra Corporation Ltd in 1993), the previously government-controlled telecommunications company (Shulman 2012). Since 1989, the sector has been progressively deregulated and opened to competition. The Telecommunications Act 1991 (Cwlth) issued two additional mobile network licences, granted to Optus and Vodafone Hutchison Australia (VHA), which has set up a tripartite market. Legislation in 1997 established a regulatory framework and industry codes and standards, and provided greater scope for industry self-regulation.

Pricing, spectrum licensing and access are the three main areas of regulatory control, as described below. The Australian Consumer and Competition Commission (ACCC) has the power to set the pricing that carriers can charge for access to their networks. This pricing power encourages competition in the industry and acts to limit the power and profitability of the three main carriers. Telstra notes that ' we are required to provide certain services to our competitors using our networks based on the ACCC calculation of the efficient costs of providing these services. In many cases we believe that the ACCC proposes prices that are below our efficient cost of supply ... There is no right to a merits review of ACCC decisions' (Telstra 2012a, p. 16).

The Australian Government controls the availability of the spectrum licences that assign the specific airspace on which mobile signals are transmitted and which operators require to provide mobile services within geographic areas and frequencies. 10 According to Shulman (2012b, p. 27), government policy decisions are required to reissue spectrum licences, and release new spectrum licences. Access to spectrum is a key factor in supporting the rollout of new mobile devices and services. The regulation of access to mobile network services is a third critical factor in the AMTC industry: ‘ Under the Trade Practices Amendment (Telecommunications) Act 1997, network services can be “ declared” whereupon carriers supplying network services are under an obligation to supply the services to requesting service providers.

Thus, once a service has been declared, it is essentially under the control of the regulatory framework’ (Shulman 2012, p. 39). Global System for Mobile Communications (GSM) and Code Division Multiple Access (CDMA) 11 services are declared services subject to regulated access pricing, while the 3G network is not subject to regulation. The potential for the government to mandate the opening up of a carrier’s mobile network to rivals is likely to increase competition and reduce the profitability of one or other of the three main carriers. There is speculation, for example, that the Australian Government may make the 4G network a declared service. 3 AMTC industry competition

Strong industry growth, combined with industry deregulation, contributed to the globalisation of the AMTC industry with the entrance of competitors, most notably Optus and Vodafone Hutchison Australia (VHA). a Industry

competitors As at 2012, the AMTC industry is highly concentrated with the three major competitors—Telstra, Optus and VHA— accounting for about 90 per cent of industry revenue (Shulman 2012b, p. 22). Over the last seven years the market shares of these competitors have not changed significantly, with Telstra at about 40 per cent, Optus 30 per cent, and VHA 25 per cent. Competition is intense among these carriers, each of which has its own full-coverage mobile networks.

VHA and Optus introduced strong price competition to the market with capped plans (prepaid and postpaid) and handset subsidies that give consumers low-price handsets as part of their contract. Shulman (2012b, p. 24) estimates that prices have fallen by around 5 per cent per annum over the past five years. 10 11 This airspace is becoming scarce due to the boom in mobile data transmission. CDMA is a transmission method that allows multiple users to use the same channel. Global Strategy and Leadership Page 14 of 20 The level of competition in the AMTC industry is high, given the regulated access to networks and the commoditised nature of voice and messaging services in which competition based on price is very strong.

The three major carriers compete against telecommunication resellers who buy capacity on their network services then resell it to consumers, and they also compete against mobile virtual network operators (MVNOs) such as Virgin Mobile. MVNOs use an existing mobile network to sell a service linked to other branded services. For example, Woolworths, an Australian listed company with a significant presence in the retail sector, established an MVNO with Optus (Shulman 2012b, p. 26). Telstra The largest industry competitor, Telstra, is discussed in detail in Section C of this case study.

Optus Optus is an integrated communications company that provides mobile, national and international services, local telephony and internet services to 9.5 million customers in Australia. It is the second largest competitor in the AMTC industry.

Optus is now a 100 per-cent-owned subsidiary of Singapore Telecommunications Ltd (SingTel), the biggest Asian-based communications group, with operations in over 20 countries and about 470 million mobile customers. SingTel is restructuring Optus following a drop in sales and revenue in 2012. ' SingTel ... reduced the workforce at Optus in Australia by about 10 per cent and is changing how it sells to consumers ... Customers will see more Optusbranded distribution channels ... Optus is cutting licensing to other retailers and adding its own stores to compete with its rival [Telstra], which has rolled out faster mobile-phone networks to expand market share' (Chen 2012).

Optus was the second carrier in Australia to commence the rollout of a 4G network in some of Australia's metropolitan areas in September 2012: ' Optus has revealed prices that are cheaper, with larger download limits, than Telstra's plans ... [However] Optus cannot extend its 4G network into regional areas for several years because it does not yet have suitable low-frequency spectrum available' (Battersby 2012). With the slowdown in customer growth in the Australian market, Optus is now focusing on improving the customer experience in order to achieve more profitable growth. VHA VHA is a joint venture between the Vodafone Group and Hutchison Whampoa.

The Vodafone Group is one of the world's largest mobile companies with a well-known brand, operations in over 70 countries and over 400 million customers. The large scale of the Vodafone Group provides strong economies of scale in purchasing and the rationalisation of operations, as well as off-shoring shared services to lower-cost locations such as India and Hungary. A key part of the Vodafone Group strategy is to achieve growth in mobile data services, particularly in the developed markets. The Vodafone Group aims to grow revenue from data services by upgrading and improving its networks to lead the market. This entails providing a faster and more reliable service, greater network coverage and capacity, and enhanced customer service.

To enable this growth, the Vodafone Group plans to stimulate demand by informing and encouraging customers to take up the range of data services that are available now and that are being developed as networks are upgraded and new mobile devices released: 'Vodafone, together with a number of other leading operators, has developed the next wave in personal mobile communications known as rich communication services which will enable data services such as instant messaging or live chat, live video sharing and file transfer across any device and on any network ... Vodafone is also developing a range of new services to generate additional revenue and enhance the customer experience such as mobile commerce, machine-to-machine and operator billing' (Vodafone 2012, p. 19).

Hutchison Whampoa, the other partner in the VHA joint venture, is also a leading global operator of mobile telecommunications and data services, with over 60 million customers and a strong focus on innovative mobile

technology. VHA operates the Vodafone, 3, and Crazy John's brands, and has nearly seven million customers. VHA provides 3G coverage to 94 per cent of Australians. VHA has performed poorly in recent times due to network coverage difficulties, delays to network upgrades, and poor customer service that has resulted in the loss of one million customers in the two years to July 2012. In the first half of 2012 Bill Morrow was appointed as the new chief executive officer (CEO), with a focus on improving network coverage, capacity, speed and reliability, and improving customer experience.

VHA has invested AUD 1 billion in upgrading its network with the rollout of a new 3G network, and in 2013 plans to commence the rollout of 4G in an effort to match Telstra and Optus: ' For Vodafone customers, this is translating into better coverage, better call quality and an improved mobile data experience on smartphones, tablets and mobile broadband devices' (Hutchison Telecoms 2012). Global Strategy and Leadership Page 15 of 20 b Alternative products and services The relatively high pricing of 3G and 4G network use has enabled competition from alternative services that operate on lower cost bases. This is offset by the carrier's substantial investment to improve the availability and coverage of their networks. 1 2 Fixed telecommunications.

This product has been in strong decline as consumers have terminated their fixed line phones and switched to mobiles as their first means of communication. Mobile and fixed VoIP. With the growth of the data services segment it is expected that: ' internet service providers ... that offer mobile connectivity via fixed networks will become direct competitive threats ... For example, Skype allows users located in hotspots [sites (e. g. cafes and

libraries) with wireless internet access for customers] to make free calls and send text messages via their mobile phone while completely bypassing traditional mobile networks' (Shulman 2012b, p. 11). Wi-Fi 12 and WiMax. These fixed wireless networks provide data services at cheaper prices than the mobile networks.

The use of these services is growing and they are predicted to become a profitable niche, particularly as the mobile networks are likely to struggle to cope with increased demands on their capacity. As the importance and usage of data transmission increases, ISPs offering WiMax technologies are forecast to pose a greater competitive threat to the AMTC industry. 3 c

Barriers to entry There is a range of barriers to entry to the industry. The AMTC industry is capital intensive. According to Shulman (2012b, p. 27): 'Upfront investment costs involved in the rollout of a network can be substantial; for example each GSM network station can cost up to \$500 000 on top o