

Report on setting up a mcdonalds franchise in uk



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McDonald's has been proved as successful business through the globe for quite some time now. This report aims at exploring the business potential in setting up a McDonald franchise by researching into its franchise structure. It gives information about the terms and conditions for becoming the McDonald's franchise along with the brief history of its business. It focuses on the strength and weakness of the business and discusses the macro environmental factors that may affect the franchise business. I had further focused on any problem that may arise during the functioning of the franchise and performed a VRIO analysis to check the sustainability of the business. The report end with a brief conclusion about the entire report suggestion whether it is beneficial to go ahead with the project.

Introduction

The fast food business is fast growing business in the UK and when talking about fast food most often the first name comes to the mind is the McDonald's. It has been a very successful business in its category for a long time now. This report discusses about setting up a franchise of McDonald's in UK and the pro and cons of owning a McDonald franchise. McDonald's has been making profits and is growing even in the current economic downturn. The figure below shows the growth of McDonald over the last year.

Figure: McDonald's Historical stock chart (advfn. com, 2010)

The above figure shows clear growth of the company selected to invest in getting franchise for. The growth also triggered an interest in researching for getting an franchise for McDonald and get good returns on the investment.

This section is divided in to two where the first give a brief account of McDonald's business history while the later discusses the terms and condition for setting up a franchise. The data collection is majorly done from the McDonald's cooperate and associate websites. The later sections discuss the SWOT analysis and the VRIO and finally the report concludes with conclusion and recommendations.

McDonald's brief history

McDonald's was started by the Dick and Mac McDonald in 1940 in San Bernardino in California. It was a typical drive-in featuring a large menu and car hop services. It started as a barbeque restaurant but in 1948 the actual McDonald's was launched when McDonald brothers shut their restaurant for alterations. The menu was reduced to nine items and staple of the menu was the 15 cent hamburger. Within a year the potato chips were replaced by the world famous French fries. Through its history McDonald's kept on evolving and capturing the expectations of its customers. In 1954 a multi-mixer salesman Ray Kroc met Mc brother to sell his mixers but was fascinated by the operations. The following year in 1955 he opened the first franchise of McDonald's in Des Plaines, Illinois and by 1965 there were over 700 McDonald's restaurant through out United States. In 1958 McDonalds sold its 100 millionth hamburger and by 1959 the 100th McDonald restaurant was opened. In 1965 McDonald celebrated its 10th anniversary with its first public stock offering at \$22. 5 per share. 1966 saw the first TV commercial of McDonald featuring Ronald McDonald who became an instant hit. In 1967 first McDonald restaurant opened in Canada and Puerto Rico and at present it is having its presence in 118 countries. Over time McDonald kept launching

products that gain individual brand images like the Big Mac, quarter pounder and happy meal. The first McDonald's restaurant in Britain opened in Woolwich, south-east London, in 1974 (mcspotlight. org, 2010). In 1978 5000th restaurant was opened in Japan and two years later it celebrated its 25th anniversary. In 1996 McDonald went online as its internet site macdonald. com was launched. McDonald has been evolving rapid in terms of product, technology and organisational strength over the years.

McDonald Franchise operation

The fast food industry has grown many folds in recent years with many new international and local chains competing with each other. Operating a fast food restaurant has many factors to be considered right from its competitors to the demographics and socio- cultural factors concerning its customers. In case of McDonalds the big brand name and massive advertising may help running the franchise but the most important is obtaining a franchise license. McDonald's people are very concerned about their customers and therefore very careful about whom they choose to serve their customers. The financial terms and conditions involving a McDonald franchise are as follows;

“ The typical cost for owning a McDonald's restaurant ranges from £125, 000 to £325, 000. The investor are required to provide at least 25% of the value as unencumbered funds, the remaining 75% can be funded through a bank loan with favourable funding terms” (mcdonalds. co. uk, 2010).

“ There's also a one-off franchise fee of £30, 000 and a training deposit of £5, 000 which is refunded when you complete your training” (mcdonalds. co. uk, 2010).

“ There are also ongoing fees. These include:

- Monthly rent on the premises, based on sales and profitability (usually ranging from 10% to 15%)**
- Service Fee for use of the McDonald’s system – 5% of sales**
- Contribution to the national marketing spend, currently 4. 5%” (mcdonalds. co. uk, 2010).

And the returns?

“ Cashflow (before debt repayment) typically ranges from £95, 000 to £200, 000 per year for each restaurant but this isn’t guaranteed: it could be more, it could be less” (mcdonalds. co. uk, 2010).

Apart from the above terms and conditions the common questions arise about the benefit the investors get. The investors get equipment and license to operate from a location for a fix term and investors buy the profitability of the business. The McDonald’s management expect its franchise owners to actively participate in the daily business of the restaurant and the franchise owners are not allowed to sell their ownership to other person without the management’s permission.

SWOT Analysis of McDonald’s

McDonald’s has been a successfully evolving business since 1955 and almost half of the top corporate staff employees started as a restaurant level employee. Fortune Magazine 2005 listed McDonald’s as the “ Best Place to Work for Minorities.”(McDonald’s fact sheet, 2007) The franchise owners and their staff are also required to undergo training in McDonald’s. Moreover it invests around a billion USD in training its staff every year.

Strengths

McDonald's was ranked number one in Fortune Magazine's 2008 list of most admired food service companies.

One of the world's most recognizable logos (the Golden Arches) and spokes character (Ronald McDonald the clown). Attractive McDonald's packaging are so popular among the children that according to the Packard Children's Hospital's Centre research concluded that children age 3 to 5 prefer food given in McDonald packaging over the food without packaging.

McDonalds bears a high corporate social responsibility value. They own Ronald McDonald House facilities providing very low cost room and board, food and sibling support for families with children needing extensive hospital care. They also sponsor Olympic athletes and local teams.

It is global company that operates more than 23, 500 restaurants in 118 countries. Their diversified presence gives them the ability to withstand economic fluctuations which are localized by country.

They are very good in adapting to local cultural appeal and requirements. For example, they don't sell beef products in India and facilitate separate entranceto male and females in Middle East, as well serving Halal meat in Muslim dominated regions in UK as well.

They are globally present in all major airports, and cities, along the highways, tourist locations, theme parks and inside shopping mall. Locations are selected with careful consideration and selecting the busiest locations possible.

“ They have an efficient, assembly line style of food preparation. In addition they have a systemization and duplication of all their food prep processes in every restaurant” (marketingteacher. com, 2010).

McDonald’s ensures strict compliance with the food quality used in its restaurants and invest producing fresh farm products.

The external products used by McDonalds like cheese, yogurt, mayo etc are from top brands who ensure strict quality measures like Kraft Cheese, Nestle Chocolate, Dasani Water, Newman’s Own Salad Dressings, Heinz Ketchup, Minute Maid Juice.

McDonald’s pioneered the provision of printed nutrition fact of its products on its packages. McDonalds offers salads, fruit, roasted chicken, bottled water and other low fat and calorie conscious alternatives.

McDonald’s has grown into a very big and trustworthy brand worldwide and especially in UK and US so opening a franchise in UK comes with the added advantage of the brand name which help getting the customers easily.

McDonalds invests a large amount in advertising in print and motion media thus making life easier for its franchise.

Weaknesses

McDonald’s venture into pizza making failed badly affecting their ability to compete with fast food pizza chains.

They have yet to capitalize on the trend towards organic foods.

McDonald's have problems with fluctuations in operating and net profits which ultimately impact investor relations.

From the perspective of franchisee the problem they have to face is that they cannot use their owned property to run a franchise if it not a site of interest to McDonald's. In that case they have to bear an additional sum for renting place offered by McDonald's.

Opportunities

The current UK generation is more attracted towards healthy or low calorie food thus McDonalds has a very good chance introduce healthy or low calorie hamburgers.

Provide optional allergen free food items, such as gluten free and peanut free.

It has a great scope in introduce hot beverages along with healthy breakfast option helping it compete with coffee shops and other fast food restaurants.

Threats

Their marketing to children often attracts criticism from parent advocate groups questioning their ethics.

In Britain, McDonald's has infamously registered itself in to the record books for fighting the longest-ever libel suit in the country (mcspotlight. org, 2010).

High food safety standards need to be maintained even a small contamination issue can land them in trouble.

The other threats are from major international fast food restaurant chains like KFC, Burger King and Subway etc.

Apart from the big names it faces potential threat from the local fried chicken chains.

In order to decide on investing in the franchise a VRIO analysis of McDonald is done in the next section to test the sustainability of the venture.

VRIO Analysis for McDonald franchise in UK

VRIO stands for Value, rarity, Imitability and organisational support where Value is the firm ability to neutralise external threats using resources and capabilities. Rarity is control if resources in the hands of few while imitability is the difficulty to imitate in any way.

Value: Mc Donald hold a high value in accordance to its brand image and exploitation of the available resources which had helped it evolved successfully for more than five decades.

Rarity: The utility of the resource may be franchise oriented and spread through its breadth but the main control still remains in the hands of the top 50 management authorities. The franchisee has to follow the company rules strict to run a franchise of McDonalds.

Imitability: McDonald may not be difficult to imitate in aspect of the product but its functionality is very difficult to achieve.

Organisation support: McDonald's is always ready to exploit new resource and evolve and the organisation structure is well organised and provides a good support to its franchise operations.

Value

Rarity

Imitability

Organization

Competitive implications

Network infrastructure

Yes

Yes

No

Yes

Temporary competitive advantage

Diversified revenue base

Yes

Yes

No

Yes

Temporary competitive advantage

Leading market position

Yes

Yes

Yes

Yes

Sustained competitive advantage

The VRIO framework of McDonalds

Looking at the above VRIO frame it can be said that McDonald has a sustainable competitive advantage and thus it seem to be vice decision to invest in the project.

Conclusion

The report deals with the franchise operation of McDonald and UK was selected as the location for the franchise. UK was selected on basis of the brand image and success of the franchise network of McDonalds. It has a very good customer base in UK which are very loyal as well. McDonald has good organisational support to its franchise in terms of training and publicity. It also operates a centralized recruitment drive which helps the franchise to get desired employees without having a headache to hunt for them. The SWOT analysis reveals a large number of strengths as well good opportunities to work on thus large scope to increase profitability. The VRIO analysis also indicates a competitive sustainability thus it is recommended to invest in the project.