

Guildhall College London

Case Study:

SM3037- Strategic Business Analysis

Case Study:

McDonald's – 2011

Submission Date:
02 June 2011 (2pm)

McDonald's – 2011

A. Case Abstract

This case is on McDonald's Corporation (www.mcdonalds.com), which is a comprehensive business policy and strategic management case that includes the

company's fiscal year-end December 2006 financial statements, competitor information and more. The case time setting is the year 2007. Headquartered in Oak Brook, Illinois, McDonald's common stock(share) is publicly-traded on the New York Stock Exchange under the ticker symbol MCD.

McDonald's sells various fast food items and soft drinks including burgers, chicken, salads, fries, and ice cream. McDonald's is led by CEO Jim Skinner whose base pay was over \$10 million in 2006. The firm's major competitors are Wendy's, Burger King, and Hardees.

B. Vision Statement (proposed)

Our vision is to maintain our stand as the number one fast food restaurant in the world.

C. Mission Statement (proposed)

It is our mission to be the world's best quick service restaurant (2). Being the best means providing outstanding quality, service, cleanliness and value, so that we make every customer (1) in every restaurant smile (5, 6). To achieve our mission we must be the best employer (9) for our people in each community (8) around the world (3), deliver excellence to our customers in each of our restaurants and achieve profitable growth by expanding the brand McDonald's through innovation and technology (4).

1. Customer
2. Products or services
3. Markets
4. Technology
5. Concern for survival, profitability, growth
6. Philosophy
7. Self-concept
8. Concern for public image
9. Concern for employees

D. External Audit

Opportunities

1. Rising population in China.
2. Chinese consider drive-through's a novelty where car ownership is growing rapidly.
3. Burger King's market share among quick service sandwich chains dropped by 10.95 percent in 2006.
4. Developing a "Healthy Lifestyle" program to attract health conscious consumers.
5. Hispanic population has recently increased by 14 percent in the U.S.
6. Krispy Kreme Doughnuts- possibility of going bankrupt.
7. 6 percent increase in social shopping areas (i.e. malls, plazas).

Threats

1. Increased expansion of traditional rivals.
2. Yum Brands are the leading quick service chains in China.
3. McDonald's Europe sales dropped by 1.9 percent.
4. Burger King's sales growth is an estimated 18.2 percent compared to McDonald's 11.2 percent.
5. Yum Brands variety of food and wide range of prices for selections.
6. Wendy's Frescata product line increased sales by 3.2 percent.
7. According to National Restaurant Association (NRA) average menu price increased by 3.2 percent.
8. Growing public awareness of fast food being unhealthy.

CPM – Competitive Profile Matrix

Critical Success Factors	Weight	Wendy's		McDonalds		Burger King	
		Rating	Weighted Score	Rating	Weighted Score	Rating	Weighted Score
Market Share	0.15	2	0.30	4	0.60	2	0.30
Advertising	0.13	2	0.26	3	0.39	3	0.39
Global Expansion	0.12	1	0.12	4	0.48	2	0.24
Product Variety	0.10	4	0.40	3	0.30	3	0.30
Product Quality	0.08	1	0.08	3	0.24	2	0.16
Company Image	0.07	2	0.14	3	0.21	2	0.14
Price Competition	0.04	3	0.12	3	0.12	3	0.12
Management	0.06	2	0.12	3	0.18	2	0.12
Experience	0.07	3	0.21	2	0.14	2	0.14
Customer Service	0.05	2	0.10	4	0.20	1	0.05
Philanthropy	0.08	2	0.16	3	0.24	2	0.16
Customer Loyalty	0.05	3	0.15	3	0.15	2	0.10
Financial Position							
TOTAL	1.00		2.16		3.25		2.22

External Factor Evaluation (EFE) Matrix

Key External Factors	Weight	Rating	Weighted Score
Opportunities			
1. Rise in population for the Chinese market.	0.05	4	0.20
2. Chinese consider drive-thrus a novelty where car ownership is growing rapidly.	0.05	4	0.20
3. Burger King's market share among quick service sandwich chains dropped 10.95 percent in 2006.	0.08	3	0.24
4. Developing a "Healthy Lifestyle" program to attract health conscious consumers.	0.15	2	0.30
5. Hispanic population has recently increased 14 percent in the U.S.	0.05	3	0.15
6. Krispy Kreme Doughnuts possibility of going bankrupt.	0.02	1	0.02
7. 6 percent increase in social shopping areas (i.e. malls, plazas).	0.05	2	0.10
Threats			
1. Increased expansion of traditional rivals.	0.15	3	0.45
2. Yum Brands are the leading quick service chains in China.	0.05	3	0.15
3. McDonalds Europe sales dropped 1.9 percent.	0.02	4	0.08
4. Burger King's sales growth is an estimated 18.2 percent compared to McDonald's 11.2 percent.	0.05	3	0.15
5. Yum Brands variety of food and wide range of prices for selections.	0.04	2	0.08
6. Wendy's Frescata product line increased sales by 3.2 percent.	0.04	2	0.08
7. According to National Restaurant Association (NRA) average menu price increased by 3.2 percent.	0.05	3	0.15
8. Growing public awareness of fast food being unhealthy.	0.15	2	0.30
TOTAL	1.00		2.65

E. Internal Audit

Strengths

1. Globally recognized brand name.
2. Largest U.S. restaurant chain in international markets with approximately 17,000 stores in 120 countries.
3. Consumption of food away from home accounted for 48.5 percent of total expenditures on food.
4. Total assets of \$29 billion in 2006.
5. McDonald's serves nearly 54 million customers daily.
6. McDonald's beat out Starbucks, Burger King and Dunkin' Doughnuts in a coffee taste test according to the Consumer Report.
7. In 2006 McDonald's return nearly \$5 billion to shareholders through shares acquired and dividends paid.
8. McDonald's sells fast food in Disney's theme parks around the world as well as Ocean Park in Hong Kong.
9. In 2006, revenue and operating income reached a record high of \$21.6 billion and \$4.4 billion respectively.
10. McDonald's increased the company's dividends by 50 percent, raising the annual \$0.67 per share to \$1.00 per share totaling about \$1.2 billion.

Weaknesses

1. Lack of menu development
2. Public's perception of quality, service, and cleanliness at McDonald's units suffered over the past years.
3. McDonald's ranked last out of 25 fast-food chains in a recent study of drive thru order accuracy.
4. McDonald's 5 year average sales are 8.14 compared to 8.89 for the industry.
5. Operations loss in Islands of Jamaica, Barbados, Bermuda.
6. Long-term debt remains over \$8 billion.
7. Low personnel productivity.
8. Yum Brands return-on-assets of 13.56 compared to McDonald's 9.74.
9. Website not user friendly.

Financial Ratio Analysis (December 2007)

Growth Rates %	McDonald's	Industry	SP-500
Sales (Qtr vs year ago qtr)	5.70	7.50	8.30
Net Income (YTD vs YTD)	-32.10	-9.10	16.00
Net Income (Qtr vs year ago qtr)	69.40	42.50	6.60
Sales (5-Year Annual Avg.)	8.14	8.89	13.34
Net Income (5-Year Annual Avg.)	18.67	13.16	20.14
Dividends (5-Year Annual Avg.)	44.27	26.63	10.00

Price Ratios			
Current P/E Ratio	28.6	24.8	21.9
P/E Ratio 5-Year High	NA	30.4	25.9
P/E Ratio 5-Year Low	NA	13.0	7.4
Price/Sales Ratio	2.89	2.10	2.38
Price/Book Value	NA	3.02	3.39
Price/Cash Flow Ratio	NA	5.40	10.60
Profit Margins			
Gross Margin	34.7	31.0	33.8
Pre-Tax Margin	15.7	12.1	17.5
Net Profit Margin	10.3	8.1	12.4
5Yr Gross Margin (5-Year Avg.)	32.4	30.5	33.5
5Yr PreTax Margin (5-Year Avg.)	17.1	12.3	16.8
5Yr Net Profit Margin (5-Year Avg.)	11.7	8.5	11.7
Financial Condition			
Debt/Equity Ratio	NA	0.69	1.19
Current Ratio	NA	0.4	0.9
Quick Ratio	NA	0.4	0.7
Interest Coverage	7.6	13.9	43.3
Leverage Ratio	NA	1.7	4.0
Book Value/Share	NA	3.58	16.25

Adapted from www.moneycentral.msn.com

<u>Date</u>	<u>Avg. P/E</u>	<u>Price/Sales</u>	<u>Price/Book</u>	<u>Net Profit Margin (%)</u>
12/07	26.50	3.13	NA	10.2
12/06	16.10	2.66	3.45	13.7
12/05	15.70	2.17	2.81	13.0
12/04	15.60	2.20	2.87	12.2
12/03	17.10	1.85	2.62	8.8

<u>Date</u>	<u>Book Value/Share</u>	<u>Debt/Equity</u>	<u>ROE (%)</u>	<u>ROA (%)</u>	<u>Interest Coverage</u>
12/07	NA	0.00	NA	NA	9.5
12/06	\$12.84	0.55	18.5	9.9	11.0
12/05	\$11.99	0.67	17.1	8.6	11.1
12/04	\$11.18	0.65	16.0	8.2	9.7
12/03	\$9.50	0.81	12.6	5.8	7.2

Adapted from www.moneycentral.msn.com

Net Worth Analysis (December 2006 in millions)

1. Stockholders' Equity + Goodwill = 15,458 + 2,200	\$17,658
2. Net income x 5 = \$3,544 x 5 =	\$ 17,720
3. Share price = \$57/EPS 2.00 = \$28.5 x Net Income \$3,544 =	\$ 101,004
4. Number of Shares Outstanding x Share Price = 1,180 x \$57 =	\$ 67,260
Method Average	\$50,910

Internal Factor Evaluation (IFE) Matrix

Key Internal Factors	Weight	Rating	Weighted Score
Strengths			
1. Globally recognized brand name.	0.08	4	0.32
2. Largest U.S. restaurant chain in international markets with approximately 17,000 stores in 120 countries.	0.15	4	0.60
3. Consumption of food away from home accounted for 48.5 percent of total expenditures on food.	0.06	4	0.24
4. Total assets of \$29 billion in 2006.	0.10	4	0.40
5. McDonald's serves nearly 54 million customers daily.	0.02	4	0.08
6. McDonald's beat out Starbucks, Burger King and Dunkin' Doughnuts in a coffee taste test according to the Consumer Report.	0.04	4	0.16
7. In 2006 McDonald's return nearly \$5 billion to shareholders' through shares acquired and dividends paid.	0.05	4	0.20
8. McDonald's sells fast food in Disney's theme parks around the world as well as Ocean Park in Hong Kong.	0.02	4	0.08
9. In 2006, revenue and operating income reached a record high of \$21.6 billion and \$4.4 billion respectively.	0.12	4	0.48
10. McDonald's increased the company's dividends by 50 percent, raising the annual \$0.67 per share to \$1.00 per share totaling about \$1.2 billion.	0.04	4	0.16
Weaknesses			
1. Lack of menu development	0.03	2	0.06
2. Public's perception of quality, service, and cleanliness at McDonald's units suffered over the past years.	0.08	2	0.16
3. McDonald's ranked last out of 25 fast-food chains in a recent study of drive thru order accuracy.	0.08	2	0.16
4. McDonald's 5 year average sales are 8.14 compared to 8.89 for the industry.	0.02	2	0.04
5. Operations loss in Islands of Jamaica, Barbados, Bermuda.	0.01	1	0.01
6. Long-term debt remains over \$8 billion.	0.02	2	0.04
7. Low personnel productivity.	0.01	1	0.01
8. Yum Brands return-on-assets of 13.56 compared to McDonald's 9.74.	0.05	2	0.10
9. Website not user friendly.	0.02	1	0.02
TOTAL	1.00		3.32

CURRENT STRATEGIES

SWOT Strategies

SO Strategies

1. Expand into Chinese market (Increase advertising and restaurant locations) - Market Development.
2. Acquire Krispy Kreme Corporation – Horizontal Integration

WO Strategies

1. Menu Development (Healthy Lifestyle & Hispanic foods lines) - Product Development.

ST Strategies

1. Increase the number of restaurants located in theme parks Disney & Ocean Park) - Forward Integration.
2. Increase advertising of coffee line in key markets (China, North America) - Market Penetration.

WT Strategies

1. Develop the menu to keep up with competition (Asian & Latin American items) - Product Development.
2. Redesign the website to make it more user-friendly and to compete better with competition - Product Development.
3. Increase sales promotions and advertising expenditures in key markets - Market Penetration.

Grow and Build

Division	% Revenue
Europe	36
US	35
Asia Pacific/Middle East	14
Latin America	7
Canada	5
Corporate & Other	3

REQUIREMENTS:

Using the above information and any other relevant information, you are expected to produce a professional report, not exceeding 3000 words that address the following:

1. Discuss the environmental factors impacting McDonalds, placing emphasis on the key drivers.
2. Based on the given internal and external data about McDonalds, critically evaluate the current strategies in use.
3. Recommend a three-year strategic plan for the organization.

CASE SPECIFICATION

Marks:	50%
Length:	Maximum 2,500 words
Submission Date:	02 June 2011 (2pm)
Referencing:	Harvard Referencing
Group/Individual Report:	Group (The group member should maintain records of their meetings)

Candidates are expected to make practical use of the material learned in class; and to encourage the exploration of specified areas in depth and learning through the discussion of ideas.

Credit will be given for effective planning and organisation; research and referencing to sources; analytical ability; logical flow of ideas; relevance to the theme; depth of analysis; awareness of the strengths and limitations of the information produced; and good presentation.

Report Content and Format

There is no set format for the report, but we do expect it to contain the following:

- Title page
- Abstract / Executive Summary
- Contents page
- Introduction
- Main body and analysis
- Conclusion and Recommendations
- Reference list
- Appendices

Marks will also be awarded for the following:

- * Presentation
- * Style
- * Referencing: use of Harvard System

Marking scheme:

CRITERIA / GROUP	
Abstract / Executive Summary	5
Introduction	10
Introduction/Background	4
Aims and Purpose of Study	3
Approach / Methodology/ Theoretical Framework	3
Analysis (No. of points, depth/coverage, concepts & application, sources/refs)	50
Question 1	12
Question 2	18
Question 3	20
Conclusion	5
Quality of Conclusion(s) / Recommendation(s)	5
Presentation	10
Report Structure	6
Formatting	4
Style	10
Language	5
Clarity of Expression	5
Referencing	10
Use of Harvard Ref system	10
TOTAL	100%

