



McDonald's Corporation



A Strategic Management Case Study

www.mcdonalds.com/

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Overview



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Who We Are



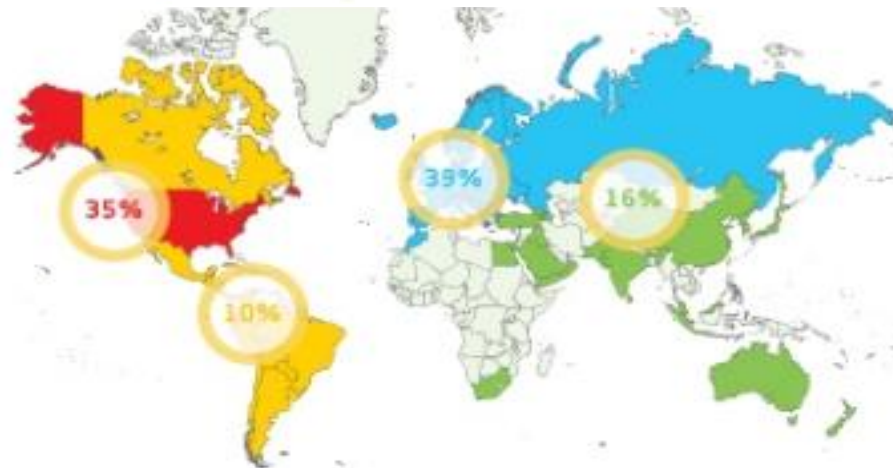
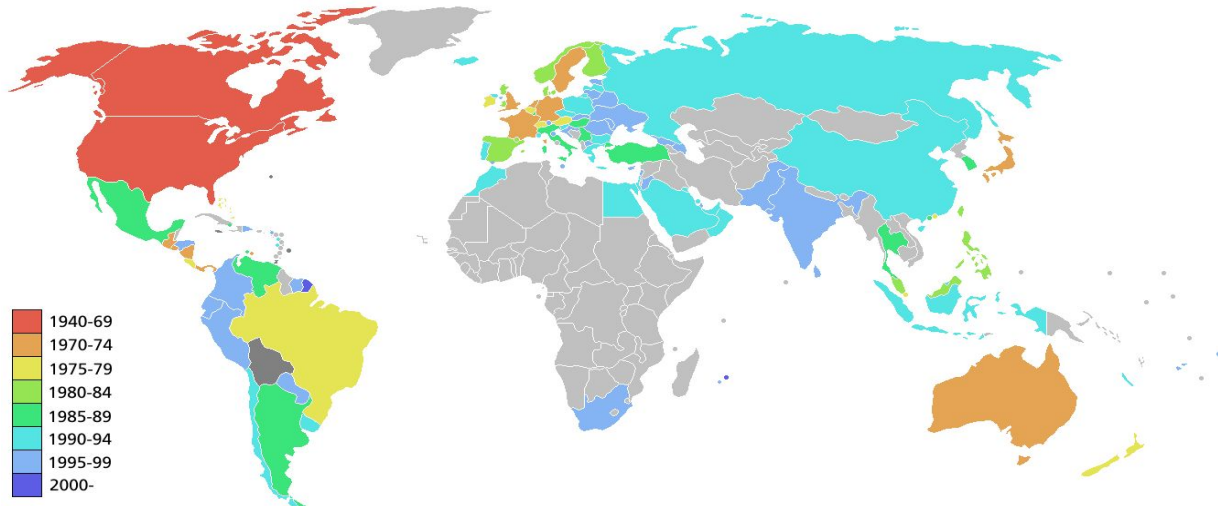
- Headquartered in Oak Brook, Illinois.
- World's largest foodservice retailing chain.
- Known for its burgers and fries.
- Offers a standard menu at all locations, though some locations may have some variation based on geographic variations in taste preference.
- Operates over 31,370 fast food restaurants in over 118 countries, employing 390,000 people.
- A majority of the restaurants are operated by franchisees.
- McDonald's owns the land used for each of the franchises, then builds and secures a long-term lease for the restaurant site.
- Franchisees then provide a portion of capital by investing in the equipment, signs, seating and décor of their restaurant business.
- The company also operates restaurants under the brand name 'The Boston Market', acquired in May of 2000.

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2009

What We Sell



Where We Are



McDonald's operations are divided into four major geographic segments.

■ Europe
 ■ U.S.
 ■ Asia Pacific, Middle East & Africa (APMEA)
 ■ Latin America and Canada



History



- **Dec 1948:** The first McDonald's restaurant is opened in San Bernardino, California by brothers Richard and Maurice McDonald. Offers burgers, fries, milk shakes, soft drinks, and apple pie.
- **1954:** Ray Kroc, a milkshake machine salesman, suggests nationwide franchising and acts as a franchising agent for the brothers.
- **1955:** The first restaurant run by Ray Kroc opens in Des Plaines, Illinois. Several problems arise in adapting the system used by Richard and Maurice to the new restaurant. First logo, Speedee, is introduced.
- **1956:** Kroc has to repurchase the franchise rights for the Cook County restaurant. They had been previously sold to the Frejblack Ice Cream Co. Fred Turner is hired to oversee operations.
- **1957:** Year-end sales for close to 40 restaurants- almost \$4.5 million.
- **1958:** The 100 millionth hamburger is sold. Sales top \$11 million. There are 34 restaurants in existence.



History (cont.)



- **1959:** Kroc opens 67 new restaurants, bringing the total to 100 franchises. They begin advertising on billboards.
- **1960:** *Look for the Golden Arches* becomes the new slogan. Fifth anniversary of the company is celebrated, and the 200th restaurant is opened. Sales reach \$38 million.
- **1961:** Kroc buys out the McDonald brothers for \$2.7 million and opens his first *Hamburger University*, for the training of franchisees
- **1962:** The Speedee logo is replaced by the Golden Arches as the company logo. Advertises nationally, for the first time, in *Life* magazine.
- **1963:** The 500th McDonald's is opened. The fish filet sandwich is added to the menu. Ronald McDonald is introduced.



History (cont.)



- **1965**: Stock goes public in celebration of the 10th anniversary of the company. Ads start showing on network television.
- **1966**: The first public shareholders meeting is held. Sales hit \$200 million.
- **1967**: The first restaurants outside the US open in Canada and Puerto Rico.
- **1968**: The Big Mac is added to the menu. The 1,000th store is opened in Des Plaines.
- **1969**: International division of the company is formed. McDonald's is listed on the Midwest and Pacific stock exchanges.



History (cont.)



- **1970:** The 1,500th restaurant is opened in New Hampshire. New advertising slogan becomes, *You deserve a break today, so get up and get away to McDonald's.*
- **1971:** Company headquarters are moved from Chicago to Oak Brook, Illinois. Restaurants are opened for the first time in Australia, Germany, Guam, Holland, and Japan.
- **1972:** McDonald's is a \$1 billion corporation. Surpasses the Army as the nation's biggest dispenser of meals.
- **1973:** The Egg McMuffin is added to the menu as a breakfast item.
- **1974:** The first Ronald McDonald House is opened. Sales approach \$2 billion. Fred Turner is named President and CEO.



History (cont.)



- **1976:** Sales exceed \$3 billion, and the 4,000th store is opened. Directors declare the first cash dividend.
- **1977:** A variety of breakfast foods are added to the menu.
- **1979:** Happy Meals are added to the menu. Half of all stores have a drive-thru window.
- **1980:** The 6,000th restaurant is opened. 25th anniversary is celebrated. Mike Quinlan becomes president and CEO of McDonald's USA, which is a new position.
- **1981:** The first restaurants are opened in Denmark, the Philippines, and Spain.
- **1982:** Dividends per share rise by 32%. Mike Quinlan becomes president and COO as well as keeping his position with McDonald's USA.



History (cont.)



1983: Chicken McNuggets are introduced on the menu.

1984: Ray Kroc, founder and senior chairman of the board of directors, dies.

1984: Year end sales pass \$10 billion. Ed Rensi becomes president of McDonald's USA. Open restaurants in Andorra, Finland, Taiwan and Wales, and the 8,000th restaurant is opened.

1985: The McDLT is introduced, a hamburger sold with lettuce and tomato in a separate compartment to keep them cool.

1986: McDonald's offers comprehensive listings of ingredients in all its foods to the public. Mike Quinlan is elected CEO, and restaurants open in Argentina, Cuba, and Turkey.



History (cont.)



- **1987:** Tossed salads are added to the menu, to satisfy the public's desire for lighter, more nutritious fast-foods.
- **1988:** An agreement is signed to build the first McDonald's in Moscow. Sales exceed \$16 billion. Restaurants are opened in Hungary, Korea, and Yugoslavia.
- **1990:** The world's biggest McDonald's, with seating for 700, is opened in Moscow.
- **1991:** The McLean Deluxe sandwich is introduced and added to the menu after years of research. The company diversifies for the first time, introducing indoor playgrounds, with the first in Chicago.
- **1994:** Stella Liebeck from Albuquerque, New Mexico sues McDonald's for almost \$2.9 million for burns from spilling a hot McDonald's coffee on her lap. She receives \$640,000 from the suit.
- **1996:** The first airborne McDonald's, the McPlane, takes off from Switzerland.
- **1996:** The Arch Deluxe hamburger is introduced.



History (cont.)



- **1996:** Net profits over the last five years have grown at a compound annual rate of 12%. Cut cost of opening a new franchise by 30% through standardization and reliance on drive-thrus.
- **1997:** Develop plans to lower prices in order to protect market share from further encroachment, mostly by Burger King. New promotion, the Teenie Beanie Babies, is the most effective marketing plan in McDonald's history.
- **1998:** The company diversifies outside of hamburger sales with its purchase of a minority stake in a Denver based chain of casual Mexican restaurants, Chipotle Mexican Grill.
- **1999:** Continues diversification with the purchase of Donatos Pizza Inc. This was later bought back by the original owner in 2003.
- **2000:** In its largest acquisition ever, McDonald's purchases Boston Market, Inc. for \$173.5 million. Restaurant is opened in French Guiana.



History (cont.)



- **2001**: Faced with a class-action lawsuit for advertising its fries and hash browns as vegetarian, even though they include beef flavoring.
- **2001**: About 50 new stores are opened in Mexico. McDonald's announces its intent to invest \$67 million in the Philippines by 2005.
- **2002**: McDonald's apologizes for not listing beef flavoring as an ingredient in its hash browns and fries and offers to donate \$10 million to vegetarian groups.
- **2003**: Post their first quarterly loss in over 40 years. Slash spending by 33%, and new store openings are reduced from 1,000 the previous year to 360.



History (cont.)



- **2004:** Introduces the “Go Active! Happy Meal,” consisting of a salad, water, stepometer, and an exercise booklet.
- **2005:** Net income increases 14% to \$2.6 billion, with record annual sales of \$20.46 billion.
- **2005:** Chipotle Mexican Grill Inc., in which McDonald’s has a 92 percent ownership stake, files an initial public offering with the Securities and Exchange Commission.
- **2006:** Plans are established to open 125 restaurants per year in China, bringing the total locations there to 1,000 by 2008.



Mission Statement



McDonald's brand mission is to "be our customers' favorite place and way to eat." Our worldwide operations have been aligned around a global strategy called the Plan to Win centering on the five basics of an exceptional customer experience – People, Products, Place, Price and Promotion. We are committed to improving our operations and enhancing our customers' experience.



Vision Statement



- We aspire to end hunger one meal at a time by providing low cost- high quality nutritional food globally.
- Corporate Responsibility Statement
 - McDonald's 2008 Corporate Responsibility Report
 - It all comes down to the food. That's what McDonald's is all about. The food we serve...how and where we serve it...the welfare of our employees and our suppliers' employees...where the food comes from...and so much more. Running restaurants is a multi-faceted endeavor, but ultimately, it all comes back to the food.



Brand Strategy



- 2003-2008 "I'm Lovin' it" is an international branding campaign by McDonald's Corp. It was created by Heye & Partner, a longtime McDonald's agency based in Unterhaching, Germany. It was the company's first global advertising campaign.
- Target Market is Children/ Elderly People
 - Happy Meals and Coffee.

• <http://www.youtube.com/watch?v=5fbrnj2Ki4s>



Menu



- http://www.mcdonalds.com/usa/eat/mcdonalds_menu.html

•Nutrition Information

- <http://nutrition.mcdonalds.com/nutritionexchange/nutritionexchange.do>



Nutrition Information

1st restaurant to place its
information in an
easy-to-read graphic format
on their packaging



Nutrition Facts

Serving Size 1 Packet (85g)
Servings Per Container 14

Amount Per Serving

Calories 300 Calories from Fat 45

% Daily Value*

Total Fat 5g 8%

Saturated Fat 1g 5%

Trans Fat 0g

Cholesterol 15mg 5%

Sodium 350mg 15%

Potassium 1570mg 45%

Total Carbohydrate 25g 8%

Dietary Fiber 6g 24%

Sugars 3g

Protein 40g

Vitamin A 100% Vitamin C 830%

Calcium 50% Iron 10%

Vitamin D 50% Vitamin E 100%

Vitamin K 50% Thiamin 50%

Riboflavin 50% Niacin 50%

Vitamin B6 50% Folate 50%

Vitamin B12 50% Biotin 50%

Pantothenic Acid 50% Phosphorus 35%

Iodine 50% Magnesium 120%

Zinc 50% Selenium 100%

Copper 25% Manganese 25%

Chromium 50% Molybdenum 50%

*Percent Daily Values are based on a 2 000 calorie diet.
Your daily values may be higher or lower depending on
your calorie needs.



Values



- **We place the customer experience at the core of all we do**
- Our customers are the reason for our existence. We demonstrate our appreciation by providing them with high quality food and superior service, in a clean, welcoming environment, at a great value.
- **We are committed to our people**
- We provide opportunity, nurture talent, develop leaders and reward achievement. We believe that a team of well-trained individuals with diverse backgrounds and experiences, working together in an environment that fosters respect and drives high levels of engagement, is essential to our continued success.
- **We believe in the McDonald's System**
- McDonald's business model, depicted by the "three-legged stool" of owner/operators, suppliers, and company employees, is our foundation, and the balance of interests among the three groups is key.
- **We operate our business ethically**
- Sound ethics is good business. At McDonald's, we hold ourselves and conduct our business to high standards of fairness, honesty, and integrity. We are individually accountable and collectively responsible.



<http://www.crmcdonalds.com/publish/csr/home/about/values.html>

Values Continued



- **We strive continually to improve**
- We are a learning organization that aims to anticipate and respond to changing customer, employee and system needs through constant evolution and innovation.
- **We grow our business profitably**
- McDonald's is a publicly traded company. As such, we work to provide sustained profitable growth for our shareholders. This requires a continuing focus on our customers and the health of our system.
- **We give back to our communities**
- We take seriously the responsibilities that come with being a leader. We help our customers build better communities, support Ronald McDonald House Charities, and leverage our size, scope and resources to help make the world a better place.



<http://www.crmcdonalds.com/publish/csr/home/about/values.html>

McCafé



- **1993**: First McCafé launched in Melbourne, Australia. These reflect a consumer trend towards espresso coffees.
- Turned out to generate 15% more revenue than regular McDonald's.
- Largest coffee shop brand in Australia and New Zealand by 2003.
- First US location was in Chicago, opened in 2001, after 300 locations had opened worldwide.
- By 2002, had spread to 13 countries.



McCafe

Features a relaxed adult atmosphere. Offers customers a variety of specialty coffee drinks along with muffins, pastries and sandwiches.



McDonald's Franchise



- Most Owner/Operators enter the System by purchasing an existing restaurant, either from McDonald's or from a McDonald's Owner/Operator.
- Financial Requirements/Down Payment
 - Initial down payment is required when purchasing a new restaurant (40% of the total cost) or an existing restaurant (25% of the total cost).
 - The down payment must come from non-borrowed personal resources, which includes cash on hand, securities, bonds.
 - Generally require a minimum of \$300,000 of non-borrowed personal resources to consider you for a franchise.
 - Remaining balance of purchase price must be paid off with in 7 years. McDonald's does not offer financing but they work with many national lending institutions.
 - McDonald's owns all buildings and properties.



Ray Kroc Formula for Success:



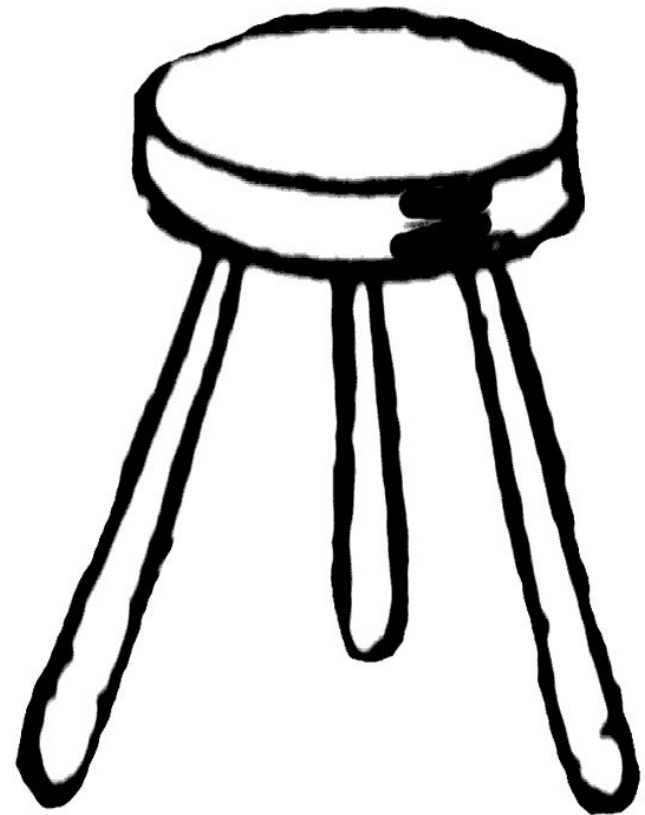
- *Quality*
- *Service*
- *Cleanliness*
- *Value*



Ray Kroc- Business Model



- Ray Kroc- Developed a business model known as “The Three Legged Stool.” Owner/Operator, Suppliers and Employees
- Just as all three legs of a stool need to be equal to support the weight, all three elements of the McDonald’s system are equally important partners in McDonald’s success.



Hamburger University Facility



- In 1993, McDonald's invested \$40 million in Hamburger University, a 130,000- square foot facility on an 80-acre campus located at McDonald's Corporate in Oak Brook, IL.

- 13 teaching room
- 300 seat auditorium
- 12 interactive education team rooms
- 3 kitchen labs
- State of the art service training labs



Hamburger University



- Hamburger University has become the company's global center of excellence for McDonald's operations training and leadership development.
- McDonald's training mission is to be the best talent developer of people with the most committed individuals to Quality, Service, Cleanliness and Value in the world.
 - First company to develop a global training center



Hamburger University



Hamburger University cont.



- Hamburger University students can earn credit toward a college degree through their course work.
- Ray Kroc once said, "If we are going to go anywhere, we've got to have talent. And, I'm going to put my money in talent."
- McDonald's spends \$1 Billion on training and development every year.



Ronald McDonald House Charities



- The mission of Ronald McDonald Charities is to create, find and support programs that directly improve the health and well being of children.
- Ronald McDonald Houses are located all around the world and provide families a way to stick together in times of need when their children are ill.
- Service Provided:
 - Home-cooked meals
 - Private bedrooms
 - Playrooms for children
 - Special suites for children with suppressed immune systems
 - Accredited education programs
 - Recreational activities
 - Non-clinical support services
 - Sibling support services



World Children Day



McDonalds restaurants around the world celebrate world children's day with fundraising activities. In 2006, McDonalds raised more than \$25 million worldwide to benefit Ronald McDonald House Charities and other local children's charities.



Mom Knows Best



“Loved by kids, approved by mom” is one of McDonalds important goals. McDonalds created a global moms advisory panel of 10 mothers from 7 countries to provide input and guidance on a broad range of topics, including their food to help better serve the needs of moms and families around the world.



Responsible Suppliers



“Only purchase from suppliers who meet our stringent food safety standards, but who also share our commitment to social responsibility and sustainability.”

- animal welfare
- rain forest and antibiotics policies
- supplier social accountability program



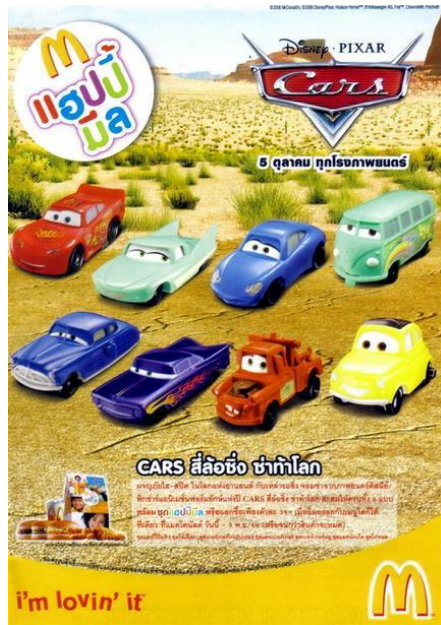
Going Green



- McDonald's has taken the initiative to incorporate used cooking oil into their operations.
- In several countries across the McDonald's System, restaurants are recycling their used cooking oil to sell to companies that specialize in refining the product into clean burning diesel for consumer use.
- In 2006, McDonalds in the U.S has began developing green restaurants.
 - Floor Tiles with a high recycled content
 - Efficient Lighting Products, Skylights and Daylight controls
 - High efficient rooftops
 - Water conserving toilets



Popular Promotions



- Toys with Happy Meals
- Cars
- Pirates of the Caribbean
- Games- Monopoly/ Uno –Win various prizes and trips
- Collectibles- Coca Cola Glasses, Beanie Babies
- Olympic Games- Global partner of the Olympic games- reflects our commitment of the importance of sports and physical activities.
- World Champions- 1,400 children from 51 countries had the opportunity to meet the world's best soccer players at the 2006 FIFA World Cup.



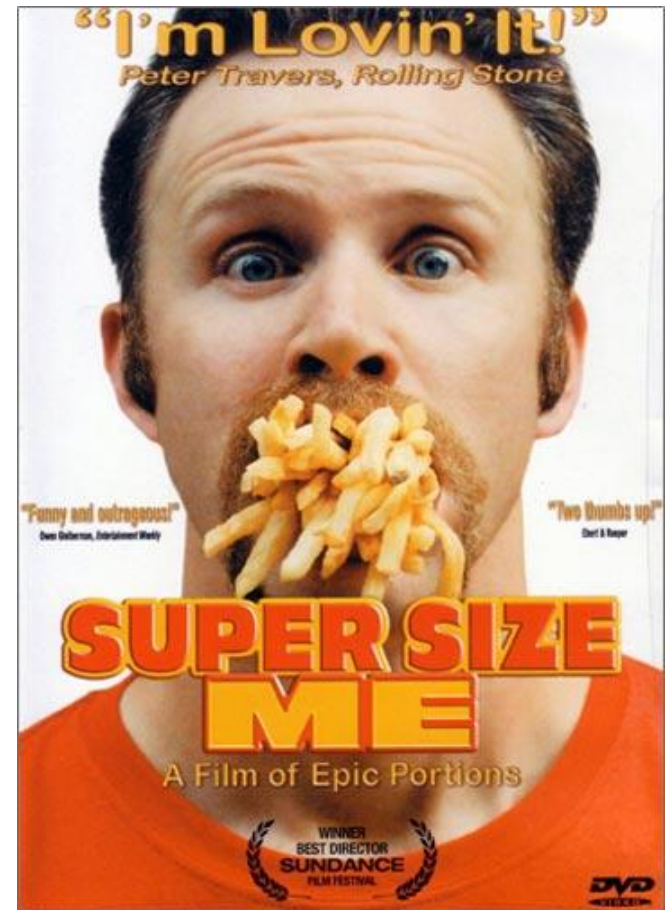
Supersize Me Scandal



- It all started with a lawsuit against the burger giant by a group of obese teenagers, the case alleged that McDonald's had created a national epidemic of obese children by misleading people into thinking their food was nutritious. 2004
- Morgan Spurlock used this lawsuit as his inspiration for his hit film *Supersize Me* which proved to be scandalous for McDonalds. It was a 30 day documentary that focused on the increase in obesity in America due to McDonalds fast food.



<http://www.youtube.com/watch?v=I1Lkyb6SU5U>



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Other Important Facts



- 53% Household income is spent outside of the home
- 2006 National Restaurant Association Quick Service Restaurant Sales increased 5%
- The Global "Informal Eating Out" market is expected to Grow \$50 Billion in 2007 and over
- 200 Billion the next 4 years
- Breakfast Food Industry \$77.6 Billion
- End of 2006- McDonalds had 31,000 locations word-wide and opened 744 restaurants.



2006 Objectives



- Grow Market Share
- Create long-terms profitable growth for share holders.
- Maintain current debt-to capital levels to 35-40%
- Reduce the percentage of company owned units.
- Decrease selling, general and administration expenses.



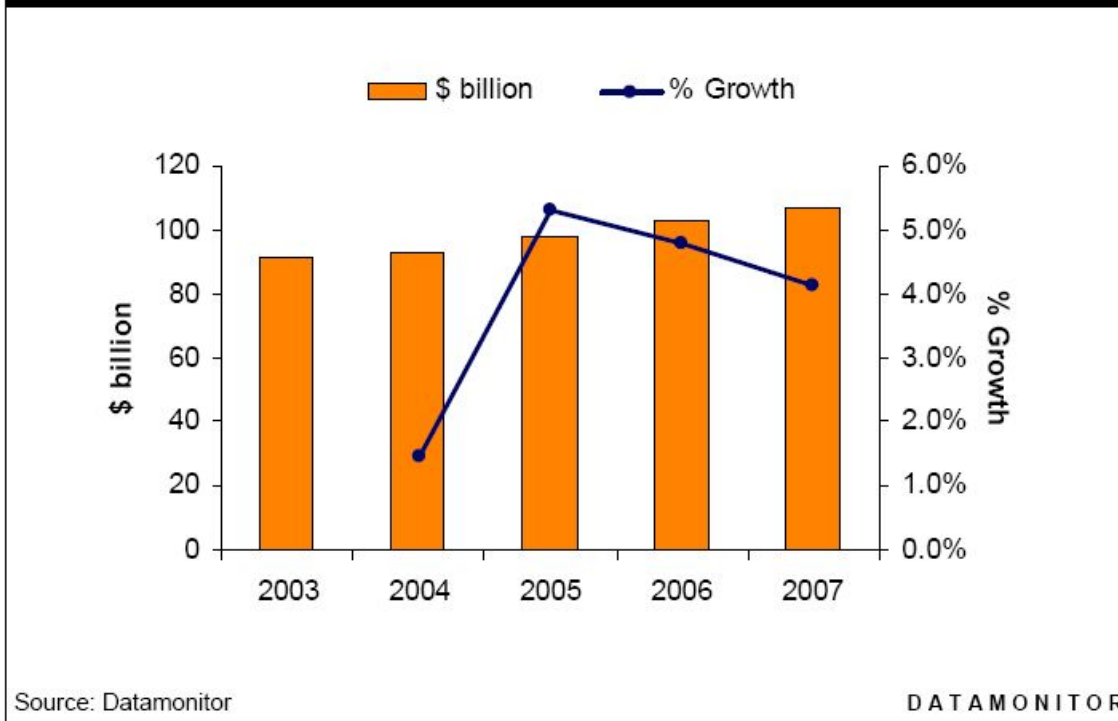
External Assessment



Global Industry Growth



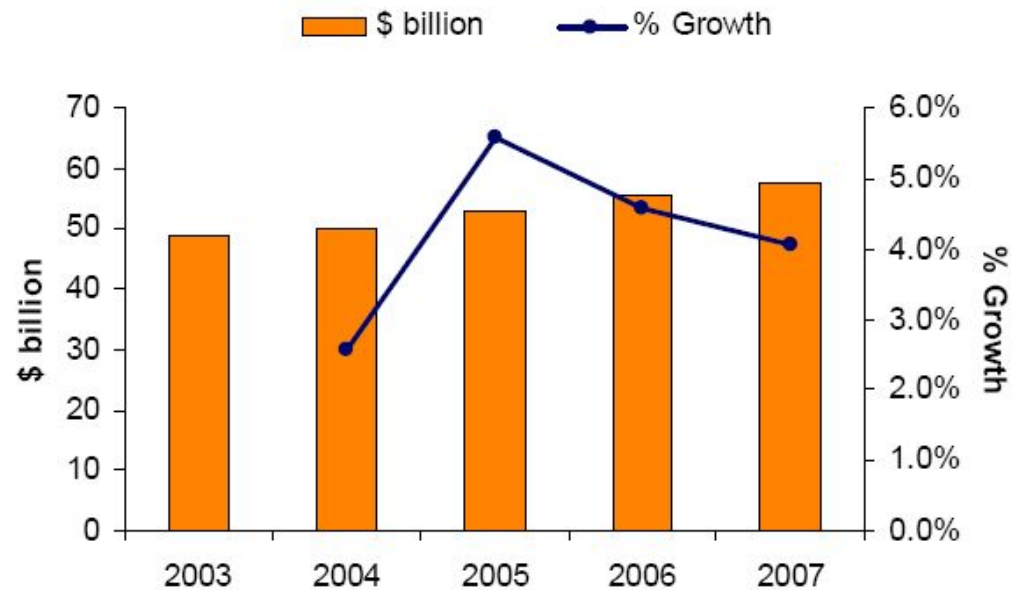
Figure 1: Global Fast Food Market Value: \$ billion, 2003-2007



U.S Industry Growth



Figure 1: United States Fast Food Market Value: \$ billion, 2003-2007



Source: Datamonitor

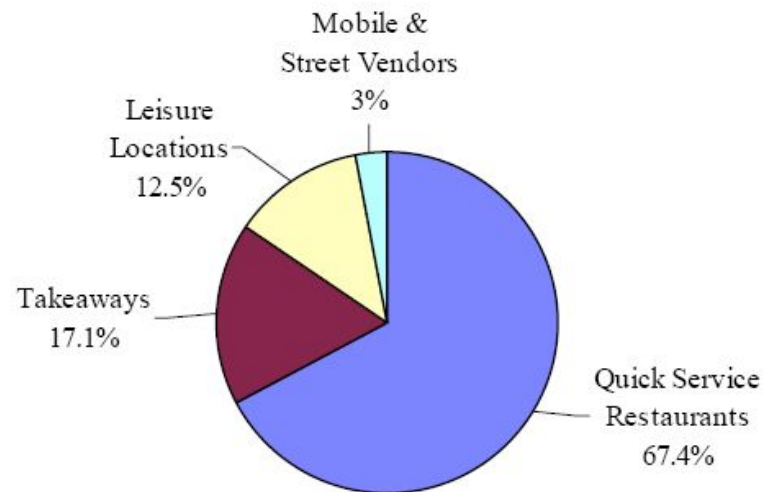
DATAMONITOR



Global Segmentation by Type



Figure 3: Global Fast Food Market Segmentation I: % Share, by Value, 2007



Source: Datamonitor

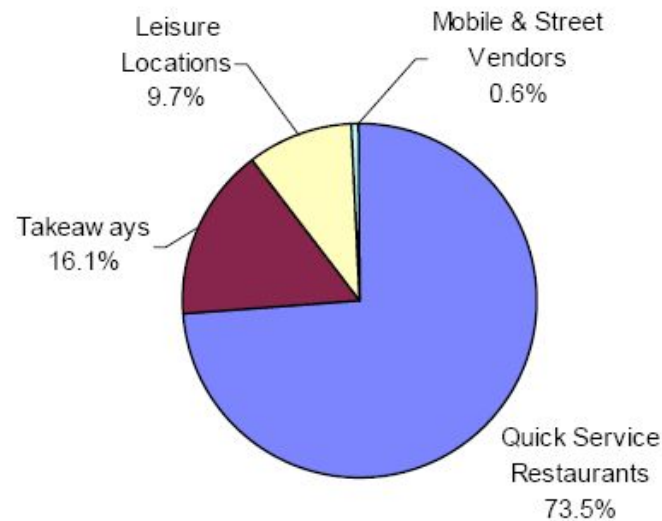
DATAMONITOR



U.S Segmentation by Type



Figure 3: United States Fast Food Market Segmentation I: % Share, by Value, 2007



Source: Datamonitor

DATAMONITOR



Competitors



Trademarks are property of respective brands O'Malley, Ouellette, Plourde, & Roy 2009

External Audit- Opportunities



1. New Products & Services
2. Beverage Market
3. Growth of Franchise Restaurants
4. Demand for Organic Products
5. International Expansion
6. Conservation (going green)



External Audit-Threats



1. Change in Commodity Prices
2. Food Safety and Food Borne Illness Concerns
3. Economic Slowdown
4. Growing Health Consciousness
5. Intense Competition (dine-in restaurants, Burger King)
6. Legal Challenges (McDonald's faces many lawsuits)



McDonalds Competitive Profile Matrix



Critical Success factors	<i>McDonalds</i>			<i>Burger King</i>		<i>Wendy's</i>	
	Weights	Rating	Weighted Score	Rating	Weighted Score	Rating	Weighted Score
	0.0 to 1.0	1 to 4		1 to 4		1 to 4	
Market Share	0.18	4	0.72	3	0.54	2	0.36
Financial Position	0.12	4	0.48	3	0.36	3	0.36
Global Expansion	0.09	4	0.36	3	0.27	2	0.18
Customer Service	0.09	2	0.18	2	0.18	2	0.18
Advertising	0.07	4	0.28	3	0.21	2	0.14
Price Competitiveness	0.07	4	0.28	3	0.21	2	0.14
Product Innovation	0.11	2	0.22	3	0.33	3	0.33
Product Quality	0.1	1	0.1	2	0.2	4	0.4
Customer Satisfaction	0.08	3	0.24	3	0.24	4	0.32
Management	0.09	4	0.36	3	0.27	3	0.27
Totals	1		3.22		2.81		2.68



External Factor Evaluation Matrix McDonalds



Key External Factors	Weights 0.0 to 1.0	Rating 1 to 4	Weighted Score
Opportunities			
New Products & Services	0.1	3	0.3
Beverage Market (frosties)	0.08	2	0.16
Growth of Franchise Restaurants	0.09	3	0.27
Demand for Organic Products	0.06	1	0.06
International Expansion	0.1	4	0.4
Conservation (going green)	0.07	1	0.07
			0
			0
			0
			0
Threats			0
Change in Commodity Prices	0.07	3	0.21
Food Safety and Food Borne Illness Concerns	0.07	4	0.28
Economic Slowdown	0.1	4	0.4
Growing Health Consciousness	0.08	2	0.16
Intense Competition (din-in restaurants, Wendy's)	0.09	4	0.36
Legal Challenges (McDonalds faces many lawsuits)	0.09	3	0.27
			0
			0
			0
			0
			0
			0
Totals			2.94

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Internal Assessment



McDonald's Performance Chart 2006



Price history - MCD (1/1/2006 - 12/31/2006)



<http://moneycentral.msn.com/investor/charts/chartdl.aspx?iax=1&Symbol=MCD>

Financial Highlights



- Earnings per share from continuing operations have increased 13% in 2006.
- Cash from operations has averaged more than \$4 billion per year for the last three years.
- McDonald's is focusing on the Brand McDonalds. They disposed of Chipotle Mexican Grill in 2006, received \$300 million in cash and 18 million shares of McDonald's stock.



Financial Highlights (Cont.)



- Revenue Grew 9% to a record 21.6 Billion

•2006	21.6B
•2005	19.8B
•2004	18.6B

- Three Year Compound Annual Return to Shareholders

•MCD	24%
•S&P	10%
•DJIA	8%

- McDonalds more than doubled its annual return to shareholders than the S&P 500 and the Dow Jones Industrial Average.



Financial Highlights (Cont.)



- Dividends have increased every year since McDonalds first paid in 1976, nearly doubled since 2004.

•2006	\$1.00
•2005	\$0.67
•2004	\$0.55

- Cash returned to shareholders:

•2006	4.9B
•2005	2.1B
•2004	1.3B
•2003	0.9B

- Totaled more than \$9B between 2003-2006



Income Statement



McDonald's Corp. (MCD)

CONSOLIDATED OPERATING RESULTS

Operating results

DOLLARS IN MILLIONS,
EXCEPT PER SHARE DATA

	2006		2005		2004
	Amount	Increase/ (decrease)	Amount	Increase/ (decrease)	Amount
Revenues					
Sales by Company-operated restaurants	\$ 16,083	9%	\$ 14,726	7%	\$ 13,755
Revenues from franchised and affiliated restaurants	5,503	8	5,106	6	4,839
Total revenues	21,586	9	19,832	7	18,594
Operating costs and expenses					
Company-operated restaurant expenses	13,542	8	12,575	8	11,688
Franchised restaurants—occupancy expenses	1,060	4	1,021	2	1,003
Selling, general & administrative expenses	2,338	8	2,167	12	1,939
Impairment and other charges (credits), net	134	nm	(28)	nm	281
Other operating expense, net	67	(36)	105	(28)	145
Total operating costs and expenses	17,141	8	15,840	5	15,056
Operating income	4,445	11	3,992	13	3,538
Interest expense	402	13	356	(1)	358
Nonoperating income, net	(123)	nm	(38)	81	(21)
Income from continuing operations before provision for income taxes	4,166	13	3,674	15	3,201
Provision for income taxes	1,293	19	1,088	18	923
Income from continuing operations	2,873	11	2,586	14	2,278
Income from discontinued operations (net of taxes of \$97, \$11 and \$1), including gain on Chipotle disposition of \$653	671	nm	16	nm	1
Net income	\$ 3,544	36%	\$ 2,602	14%	\$ 2,279
Income per common share – diluted					
Continuing operations	\$ 2.30	13%	\$ 2.03	13%	\$ 1.79
Discontinued operations, including gain on Chipotle disposition of \$0.52	0.53	nm	0.01	nm	—
Net income per common share – diluted	\$ 2.83	39%	\$ 2.04	14%	\$ 1.79
Weighted-average common shares outstanding—diluted	1,251.7		1,274.2		1,273.7

nm: Not meaningful.



Balance Statement



<http://finance.yahoo.com/q/bs?s=MC>
D&annual



Ratios

Liquidity Ratios

Current Ratio	1.76
Quick Ratio	1.72

Leverage Ratios

Debt-to-Total Assets Ratio	0.29
Debt-to-equity Ratio	0.54
Long-term debt-to-equity Ratio	0.54
Times-Interest-earned Ratio	11.36

Activity Ratios

Inventory Turns	185.90
Fixed Assets Turnover	0.70
Total Assets Turnover	0.72
Accounts Receivable Turnover	25.90
Average Collection Period	14.10

Profitability Ratios

Gross Profit margins	0.33
Operating Profit Margin	0.22
Net Profit Margin	0.17
Return on Total Assets	0.12
Return on Stockholders equity	0.23
Earning per share	2.94
Price-earnings Ratio	15.06



Industry Ratios



Growth Rates %	Industry	SP-500
Sales (Qtr vs. year ago qtr)	7.5	8.3
Net Income (YTD vs. YTD)	-9.1	16
Net Income (Qtr vs. year ago qtr)	42.5	6.6
Sales (5-Year Annual Avg.)	8.89	13.34
Net Income (5-Year Annual Avg.)	13.16	20.14
Dividends (5-Year Annual Avg.)	26.63	10
Price Ratios		
Current P/E Ratio	24.8	21.9
P/E Ratio 5-Year High	30.4	25.9
P/E Ratio 5-Year Low	13	7.4
Price/Sales Ratio	2.1	2.38
Price/Book Value	3.02	3.39
Price/Cash Flow Ratio	5.4	10.6
Profit Margins		
Gross Margin	31	33.8
Pre-Tax Margin	12.1	17.5
Net Profit Margin	8.1	12.4
5Yr Gross Margin (5-Year Avg.)	30.5	33.5
5Yr Pretax Margin (5-Year Avg.)	12.3	16.8
5Yr Net Profit Margin (5-Year Avg.)	8.5	11.7



Industry Ratios (Cont.)



Financial Condition		
Debt/Equity Ratio	0.69	1.19
Current Ratio	0.4	0.9
Quick Ratio	0.4	0.7
Interest Coverage	13.9	43.3
Leverage Ratio	1.7	4
Book Value/Share	3.58	16.25
Investment Returns %		
Return On Equity	15.1	20.8
Return On Assets	4	5.8
Return On Capital	5.4	7.7
Return On Equity (5-Year Avg.)	11.1	14.5
Return On Assets (5-Year Avg.)	3.1	5.1
Return On Capital (5-Year Avg.)	4.3	6.8
Management Efficiency		
Income/Employee	3,150	37,696
Revenue/Employee	48,925	343,930
Receivable Turnover	29.9	9.5
Inventory Turnover	34.5	5.6
Asset Turnover	0.7	0.6



Net Worth Analysis



1. Stockholders' Equity + Good Will = 15458.30 + 2073.6

\$3,531.90

2. Net Income X 5 = 3544.20 X 5

\$17,721.00

3. Share Price = 44.33/EPS 2.44 = 18.16 X Net Income 3544.2

\$64,362.67

4. Number of Shares Outstanding X Share Price = 1204 X 44.33

\$53,373.32

Method Average

\$34,747.22



Internal Audit- Strengths



1. Strong Global Presence (located in over-100 countries)
2. Strong Real Estate Portfolio
3. Brand Recognition
4. Revenue Growth 9% (Above Industry Average of 7.5%)
5. The Ronald McDonald House (Children Charity)
6. Systemization and Duplication (Consistency)



Internal Audit-Weaknesses



1. Public Perception (perceived as a contributor to societies obesity problem)
2. Product Innovation
3. Advertising (targets young children)
4. Customer Service
5. Market Saturation (more difficult to add new stores)
6. Labor Turnover



Internal Factor Evaluation Matrix

McDonald's



Key Internal Factors	Weights 0.0 to 1.0	Rating 1, 2, 3 or 4	Weighted Score
Internal Strengths		3 or 4	
Strong Global Presence (located in over 100 countries)	0.09	4	0.36
Strong Real Estate Portfolio (franchises, land, buildings)	0.09	4	0.36
Brand Recognition (Ronald McDonald is as famous as Mickey Mouse)	0.11	4	0.44
Revenue Growth 9% (Above Industry Average of 7.5%)	0.11	4	0.44
The Ronald McDonald House (Children Charity)	0.06	4	0.24
Systemization and Duplication Process (consistency)	0.09	4	0.36
			0
			0
			0
			0
Internal Weaknesses		1 or 2	
Public Perception (perceived as a contributor to societies obesity problem)	0.09	1	0.09
Product Innovation	0.08	2	0.16
Advertising- targets young children (many countries ban unhealthy advertisements)	0.07	2	0.14
Customer Service	0.08	2	0.16
Market Saturation (more difficult to add new stores)	0.07	2	0.14
Labor Turnover	0.06	1	0.06
			0
			0
			0
			0
			0
			0
Totals		1	2.95

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Strategic Formulation



New Value Picks Menu

Item	Price
Double Beef & Cheese	\$1.95
Apple Pie	\$1.00
Mini Snack Wrap	\$2.45
Garden Salad	\$1.95
600ml Summit Water	\$1.95
Soft Serve Cone	\$0.30
Brekkie Snack Wrap (available until 10:30am)	\$2.45
Soft Serve Cone & Cadbury Twirl	\$1.00
Soft Serve Cone	\$0.30

Available after 10:30am



SWOT Matrix



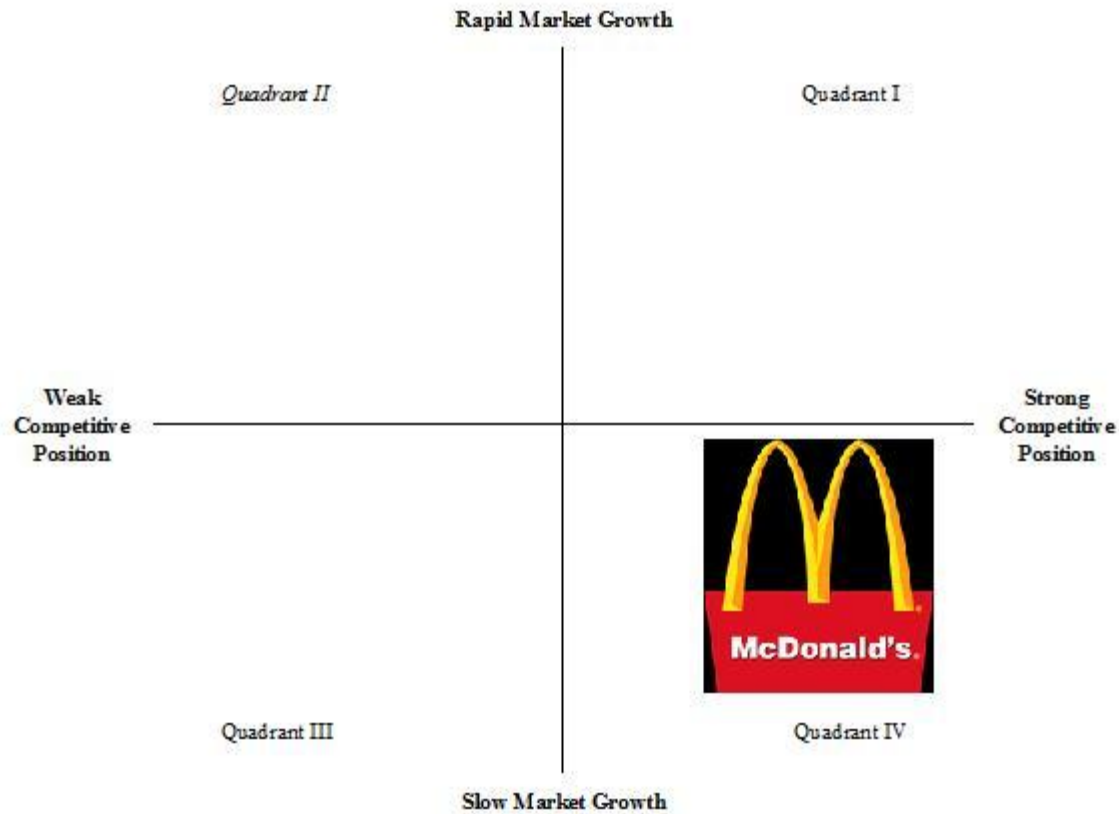
SO Strategies	WO Strategies	ST Strategies	WT Strategies
<p>1. Develop New Products & Services For Global Markets. (S1, O1)</p> <p>2. Develop Green Packaging for all Stores. (S6, O6)</p> <p>3. Integrate into new territories. (S1, S4, O5)</p>	<p>1. Advertise Organic Products to Older Demographic. (W3, O4, O6)</p> <p>2. Spend more money on Research and Development to create new products and services. (W2, O1)</p> <p>3. Create an organic menu. (W2, O1)</p>	<p>1. Launch Marketing Campaign for Ronald McDonald House to increase Brand Recognition and Customer Loyalty. (S5, S3, T3, T5)</p> <p>2. Develop alternatives to existing menu that can be easily implemented and don't rely on more expensive commodities. (S6, T1)</p>	<p>1. Research and Develop products that quell Growing Health Concerns. (W1, T2, T4)</p> <p>2. Increase spending on Customer Service efforts to decrease legal challenges. (W4, T6)</p>



A photograph of a McDonald's meal. In the center is a Big Mac burger with two beef patties, cheese, pickles, onions, ketchup, and mustard on a sesame seed bun. To the right is a large portion of golden-brown French fries. To the left is a red cup of Coca-Cola with a white label. The food is presented on a white plate with a McDonald's logo.



Grand Strategy Matrix



BCG Matrix



- McDonalds stores compete in the same market whether they are corporate owned or franchised.
- No Value in producing a BCG Matrix
- McDonalds would be considered a Star.



IE Matrix



Hold And Maintain

IFE Scores

Strong

Average

Weak

3-4

2-2.99


1-1.99

EFE Scores

High 3-4

Medium 2-2.99

Low 1-1.99

I	II	III
IV	V 	VI
VII	VIII	IX



Matrix Analysis



Alternative Strategies	IE	SPACE	GRAND	COUNT
Forward Integration		X		1
Backwards Integration		X		1
Horizontal Integration		X		1
Market Penetration	X	X		2
Market Development		X		1
Product Development	X	X		2
Concentric Diversification		X	X	2
Conglomerate Diversification		X	X	2
Horizontal Diversification		X	X	2
Joint Venture			X	2
Retrenchment				0
Divestiture				0
Liquidation				0



Possible Strategies



- 1) Create an Organic Menu.
 - A. Market Penetration
 - B. Product development & related diversification

- 2) Spend more money on research and development to create new products and services and increase the efficiency of operation.
 - A. Product development & related diversification



Quantitative Strategic Planning Matrix-QSPM



		Option 1		Option2	
		Create an Organic menu.		Spend more money on R&D to create new products and services and increase the efficiency of operations	
Key External Factors	Weight	AS	TAS	AS	TAS
Opportunities		1 to 4		1 to 4	
New Products and Services	0.1	4	0.4	4	0.4
Beverage Market (frosties)	0.08	3	0.24	2	0.16
Growth of Franchise Restaurants	0.09		0		0
Demand for Organic Products	0.06	4	0.24	2	0.12
International Expansion	0.1		0		0
Conservation (Going Green)	0.07	4	0.28	3	0.21
Threats					
Change in Commodity Prices	0.07	2	0.14	2	0.14
Food Safety and Food Borne Illness Concerns	0.07		0		0
Economic Slowdown	0.1	2	0.2	3	0.3
Growing Health Consciousness	0.08	4	0.32	3	0.24
Intense Competition (Dine-In Restaurants, Wendy's)	0.09	4	0.36	3	0.27
Legal Challenges (8.8million lawsuits)	0.09		0		0
total should be 1.0		1			



QSPM (Cont.)



Key Internal Factors		Organic Menu		Increase \$ on Research & Development	
Strengths		1 to 4		1 to 4	
Strong Global Presence (located in over 100 countries)	0.09	4	0.36	4	0.36
Strong Real Estate Portfolio (land, buildings)	0.09		0		0
Brand Recognition (Ronald McDonald is as famous as Mickey Mouse)	0.11	4	0.44	4	0.44
Revenue Growth 9% (Above industry average 7.5%)	0.11		0		0
The Ronald McDonald House (Children Charity)	0.06		0		0
Systemization & Duplication Process (consistency)	0.09		0		0
Weaknesses					
Public Perception (perceived as a contributor to societies obesity problem)	0.09	4		3	0.27
Product Innovation	0.08	4	0.32	4	0.32
Advertising (targets young children)	0.07		0		0
Customer Service	0.08		0		0
Market Saturation (more difficult to add new stores)	0.07		0		0
Labor Turnover	0.06		0		0
total should be 1.0		1			
			3.3		3.23



Future Plans



Objectives



Objectives for 2007 and the next three years are:

- Better restaurant operations
- Branded affordability
- Menu variety and beverage choice
- Grow market share
- Maintain debt-to-capital levels to 35-40%
- Create long-term profitable growth for shareholders



Recommendations



Create an organic menu to satisfy the growing hunger for healthier foods. This will increase McDonald's sales and be a positive effective on its public image.

\$15,000,000

Spend more money on Research & Development to create new products and services and increase the efficiency of operations.

\$10,000,000

Advertise organic products to the older demographic.

\$10,000,000

Increase spending on customer service efforts to decrease legal challenges.

\$5,000,000

Develop green packaging for all stores. This will decrease McDonald's operations expenses and create a better atmosphere in the long run.

\$25,000,000



Total Costs= **\$65,000,000**

Going Organic



- Organic Food sales are anticipated to increase an average of 18 percent each year from 2007 to 2010.
- Organic food represents approximately 2.8% of overall food and beverage sales in 2006. The organic sector grew 20.9% in 2006.
- Total US organic sales, including food and non-food products, were \$17.7 billion in 2006 up 21% from 2005.



O'Naturals Organic Fast Food



- McDonalds "competition" in the organic segment.
- Privately owned company.
- Locations: 2 in Maine, 1 in Massachusetts, 1 in Arizona, 1 in Kansas.
- Serves only organic food and beverages.
- Easy acquisition for McDonalds if they pursue the organic segment of the fast food industry.



Implementation



EPS/EBIT Analysis



Amount of money needed: *\$65,000,000*

Stock Price as of 12/31/06: *\$41.61*

Tax Rate: *35%*

Interest Rate: *7%*

Shares Outstanding: *1,204,000,000*

Shares needed: *1,562,124*



EBS/EBIT Analysis (Cont.)




Common Stock Financing

	<u>Recession</u>	<u>Normal</u>	<u>Boom</u>
EBIT	65,000,000	250,000,000	600,000,000
Interest	0	0	0
EBT	65,000,000	250,000,000	600,000,000
Taxes	22,750,000	87,500,000	210,000,000
EAT	42,250,000	162,500,000	390,000,000
#Shares	1,205,562,124	1,205,562,124	1,205,562,124
EPS	0.035045892	0.134791892	0.323500542

Debt Financing

	<u>Recession</u>	<u>Normal</u>	<u>Boom</u>
EBIT	65,000,000	250,000,000	600,000,000
Interest	4,550,000	4,550,000	4,550,000
EBT	60,450,000	245,450,000	595,450,000
Taxes	21,157,500	85,907,500	208,407,500
EAT	39,292,500	159,542,500	387,042,500
#Shares	1,205,562,124	1,205,562,124	1,205,562,124
EPS	0.03259268	0.13233868	0.321047329

70 Percent Stock- 30 Percent Debt



	<u>Recession</u>	<u>Normal</u>	<u>Boom</u>
EBIT	65,000,000	250,000,000	600,000,000
Interest	4,550,000	4,550,000	4,550,000
EBT	60,450,000	245,450,000	595,450,000

70 Percent Debt- 30 Percent Stock

	<u>Recession</u>	<u>Normal</u>	<u>Boom</u>
EBIT	65,000,000	250,000,000	600,000,000
Interest	3,185,000	3,185,000	3,185,000
EBT	61,815,000	246,815,000	596,815,000

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Other Issues



- Labor Turnover
 - Employee Retention
- Cultural differences in international countries
- Laws and regulations in international countries
- Currency
- Public Relation



Evaluation



- ☒ Excellent
- ☐ Very good
- ☐ Good
- ☐ Average
- ☐ Poor



Update-Current Strategy and Objectives 2007-2008



- **Our Plan to Win**, with its strategic focus on "being better, not just bigger," has delivered even better restaurant experiences to customers and superior value to shareholders.
- We have the world's best owner/operators, suppliers, and employees united in our commitment to customers.
- We are leveraging greater consumer insight to deliver sustainable business results for the long-term benefit of our shareholders.



McDonald's Performance Chart 2006-2009



Price history - MCD (1/1/2006 - 3/31/2009)



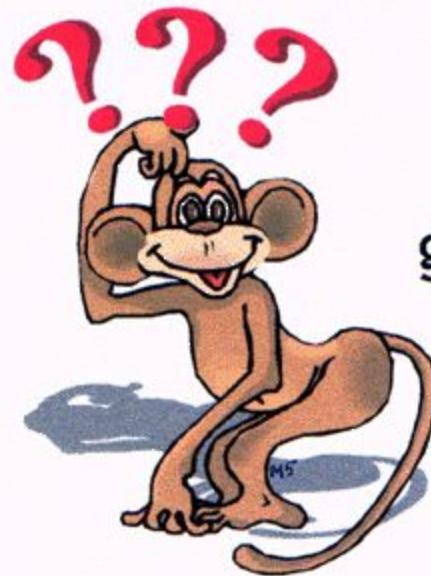
<http://moneycentral.msn.com/investor/charts/chartdl.aspx?iax=1&Symbol=MCD>

McDonald's Trivia



- McDonald's sell more than 1/3 of all the French fries sold in restaurants in the U.S.
- McDonald's restaurant will buy 54,000,000 pounds of fresh apples this year.
- Nearly one in eight workers in the US has at some time been employed by McDonald's.
- More than 50,000 students from all over the world have graduated with "Bachelor of Hamburgerlogy" degrees from McDonald's from Hamburger University.
- Since its founding in 1955, McDonald's has sold well over 100 billion hamburgers.
- There is about 178 sesame seeds on a Big Mac bun.





Questions
are
guaranteed in
life;
Answers
aren't.



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