

Principles of Management I Continuous Assessment:

The Functional Analysis of McDonald's

Tommaso Maccaferri- D23129056

Adam Dunne O'Farrell- C23359266

3rd May 2024

Introduction

McDonald's has become one of the world's leading food service brands with more than 40,000 restaurants in more than 100 different countries throughout the world. It has transformed from its humble beginnings to dominating the world of fast food in the modern era. It is also the most popular choice for fast food consumers with an estimated 69 million people eating at McDonald's every single day. Despite being in the food industry, McDonalds is also the largest toy distributor in the world, distributing about 1.5 billion toys a year, which are sold as part of the company's Happy Meal. Despite its popularity, many customers are unaware of how the franchise is managed behind the scenes, which is what we will investigate during the course of this assignment.

Geography ▾	Category ▾	Company Name ▾	Data Type ▾	2018 ▾	2019 ▾	2020 ▾	2021 ▾	2022 ▾	2023 ▾
World	Chained Consumer Foodservice	McDonald's Corp	Foodservice Value RSP	10.8	10.9	11.7	11.6	11.5	11.6
World	Chained Consumer Foodservice	Yum! Brands Inc	Foodservice Value RSP	5.7	5.8	6.3	6.3	6.1	6.0
World	Chained Consumer Foodservice	Restaurant Brands International Inc	Foodservice Value RSP	3.9	3.9	4.0	4.0	4.1	4.1
World	Chained Consumer Foodservice	Starbucks Corp	Foodservice Value RSP	3.3	3.4	3.3	3.7	3.7	3.7
World	Chained Consumer Foodservice	Inspiro Brands Inc	Foodservice	1.4	1.4	3.1	3.1	3.1	2.9

McDonald's Corp. now has the largest share of the Foodservice market with a share of 11.6%.

Portaleuromonitor.com

Body of Work

Planning

McDonald's plan for the future is known as their strategic direction within the company. The strategy reflects the purposes, values and growth pillars which are built on the company's competitive advantage. McDonald's plans to maximise its marketing by investing in new, culturally relevant approaches in order to allow an insight into the entire story of its brand. This is most achievable through its McDonald's mobile app. The Company is committed to a marketing strategy that highlights value at every tier of the menu, as affordability remains a cornerstone of the McDonald's brand.

Another component of McDonald's plan for the future is through its "4 D's" development strategy. These are: digital, delivery, drive thru and development. The digital element is to innovate the ways of how customers can pay, order and receive their food. The Company plans to increase its 90-day app active users from over 150 million today to 250 million by 2027. The company is continuing to build and further enhancing its delivery for customers, including placing orders for delivery through the McDonald's app. McDonald's drive thru service is another key component when it comes to the success of the company. Their plan for the coming years is to further improve the speed in which customers can order and collect their food from the drive thru, this will be achieved by adding more lanes to its drive thrus to reduce waiting times when ordering. On the developmental side of the company, McDonald's plans to open over 2,100 new restaurants worldwide in 2024. This will contribute to 4% of new unit growth. The company has its sights set on achieving 50,000 new restaurants globally by the end of 2027.

Organising

McDonald's organisational design is based on three components: global hierarchy, regionally focused groups and functional groups. The global hierarchy is the top management of the company, and it is composed by the board of directors. The regionally focused group, or middle management, are divided according to the different regions in which the company operates, and they administer the business activities in their specific area ^[1]. The last ring in the management chain is composed by the functional groups, teams divided according to the areas of interest

(such as marketing or training) whose goal is to carry out capillary activities they are assigned to. Functional groups represent a crucial point for the Company because they are responsible of translating the instruction received from above into workable and detailed plans for the owners of the restaurant (Luke James,2024). McDonald's does not in fact own most of its restaurants, and the relationship between the company and the franchisees is a delicate part that has a huge weight on the company's overall performances ^[2].

According to its current structure is possible to say that McDonald's turns out to be a fairly flat company, which does not have a steep pyramidal structure, and which largely depends on the activities of the franchisees. Its biggest strength is found in this organizational composition, which allows the Board to make the most important decisions, while leaving enough space to the franchisees for the administration of their own restaurants. The fact that these entrepreneurs are their own employers means that they are likely to work harder than simple employees. This is beneficial for the Company because it assures high individual performances and the management of small size problems such as hiring or dealing with municipalities. Lastly, the great knowledge that franchisees are expected to have over their territory guarantees to McDonald's the right choices for those activities aimed at satisfying the diverse costumers' demand.

Leading

Chris Kempczinski currently occupies the roles of President and Chief Executive Officer of McDonald's. His career started as brand developer at the Procter&Gambe Co. after he graduated in marketing at the Harvard Business School. In 2000, Chris Kempczinski entered the consumer goods market being hired by the PepsiCo Inco. Thanks to his work at the company, Mr. Kempczinski became Marketing Executive Officer in 2010, but left the company in 2014 to become Chief Executive Officer of Kraft International (Ruggles, 2019). Leaving the company in 2015, Chris started working for McDonald's where he begun in the 'global strategy and innovation team'. He was thereafter promoted to president of McDonald's USA in October 2016 (Grothaus, 2020), managing over 35,000 restaurants across the US and implementing new strategies and products that increased the sales and the services of the company ^[3]. In 2019, Chris was appointed as Chief Executive Officer and in 2020 he was appointed as Chairman of the Board (Maze, 2024).

In few years Kempczinski has demonstrated to be capable of taking charge of one of the biggest companies in the world and has repaid the Board's trust by successfully leading as CEO. He was in

fact appointed in the worst possible moment, having to face the pandemic shutdown and the Russian invasion of Ukraine in the first years as leader. He has nevertheless proven to be prepared, closing the restaurants in the most virus afflicted areas ^[4] and deciding to exit the Russian market just few days after the invasion ^[5].

As he has written in his 2023 Annual Letter to Shareholders, his future aim is to expand the McDonald's business while maintaining high quality standard of products and services. This whole process passes through the improvement of the costumer experience and the supplier well-being and the McDonald's Board can consider itself lucky of having Chris Kempczinski as its leader for these future challenges.

Controlling

At the centre of the company's focus, when it comes to controlling, is to keep the customer and restaurant crew at the forefront of what the company does. This is done alongside a major focus on running a high quality restaurant and empowering its people in the process. The company does its upmost to ensure that its food is of high quality and safe for consumption by its customers. Food safety is a top priority for McDonald's. The company dedicates substantial resources to ensuring that customers enjoy safe food products. McDonald's are very aware that cases of food tampering, food contamination or food-borne illnesses, whether they are actual or perceived, can have a detrimental impact on its brand, its reputation and its financial results.

In terms of its employees, McDonald's are committed to providing a workplace where its employees feel supported, have equal access to opportunities and feel motivated to pursue their own aspirations in their careers. More than two million individuals who work in McDonald's franchised restaurants around the world are critical to the System's success, enabling it to drive long-term value creation and further its purpose and mission. McDonald's uses an inclusion index to measure behaviours and actions the company is taking to ensure they are providing an inclusive environment to everyone that is working within the company. The index measures critical attributes which allow people to be themselves at work and is achieved by asking for feedback on thought offering opinions and advancing through the company.

Conclusion and Recommendations

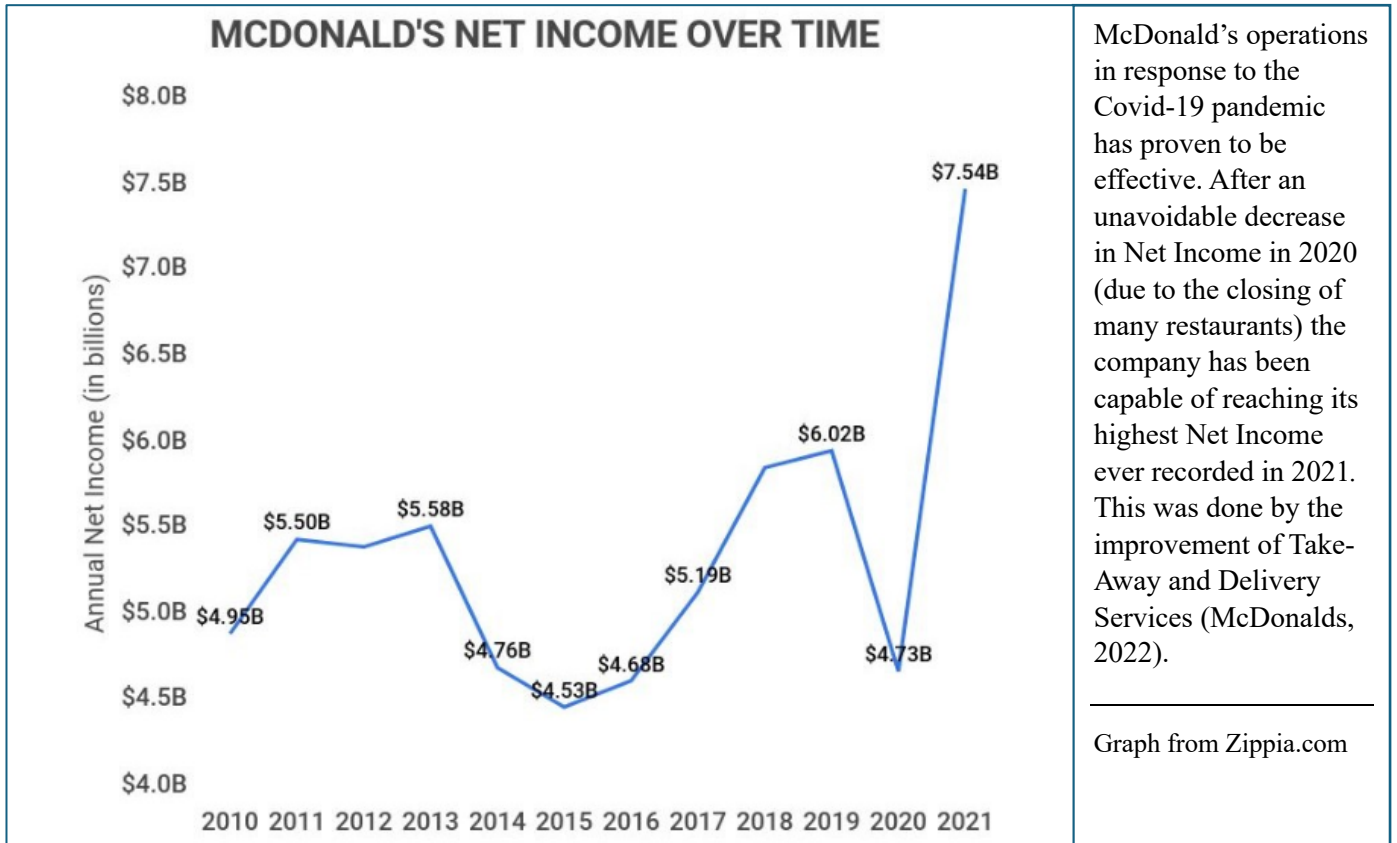
The growth of McDonald's over the past seventy years has been incredible, starting from a restaurant managed by two brothers it created a new market that was not existing before. As for every company, the initial idea constitutes the foundations, the roots of the company, but without a well-managed structure McDonald's would have never been able to achieve the success he had. The intention of this work was in fact to analyse the structure that have allowed McDonald's to be the leader of its sector over the last seventy years despite the increasing competition that soon followed its opening. As highlighted more than once, the reasons behind this intertemporal success are the continue innovation and the never-ending control over costumers' satisfaction and food quality. Both elements prove that McDonald's is a credible sector leader, whose new ideas and innovations are copied by competitors and whose expansion is sustainable thanks to the control operated over existing restaurants.

If undervalued or bad managed, the element of control can be the trigger of decreasing economic performances and loss of market share for multinational corporations. Thanks to its organizational structure, McDonald's can rely on an elevated number of franchisees whose interests are aligned with the company's and that operate for the well-being of both. Nevertheless, it is probably over this field that McDonald's can still improve. The correct training and the setting of high standards for all the franchisees could flatter the existing differences between the restaurants, assuring an equal treatment to all customers around the world.

Appendices

1. As of now, there are three functional areas: United States, that deals with all commercial activities in the US, the International Operated Markets, comprehending the five largest McDonald's market apart from the US, and the International Developed Licensed Markets composed by other markets in which McDonalds operates and which count for the 9% of the total sales.
2. 'McDonald's franchises and operates across more than 100 countries, out of the 41,822 restaurants at year-end 2023, approximately 95% were franchised' (McDonald's 2023 Annual Report, pp.3). According to this business model, an independent business owner, the franchisee, can purchase the right to use an existing business's trademarks, associated brands and proprietary knowledge to market and sell the same brand. Franchisor like McDonalds receive an initial fee plus an ongoing percentage of the gross revenues from the entrepreneurs in exchange of the usage of the intellectual property (Carla Tardi, 2024). The strength of the franchising business model relies on the blending of the expertise provided by the brand and the innovations carried on by the franchisees, while the main disadvantage is that the company only gets a percentage of the restaurant revenues. In 2023, the revenues from Company-Operated restaurants (only the 5% of all McDonald's) was in fact of \$9,742 million while the revenue from the other 95% restaurants was only \$15,436 million (McDonald's Annual Report, pp.12).
3. During his experience as President of McDonald's USA, Chris Kempczinski has introduced the self-ordering board and digital kiosk, while improving the Drive-Through services and Delivery (McDonalds, 2022). According to Mykola Golovko, in his article 'Consumer Food Service', 2024: 'Delivery is expected to be the most dynamic channel within Consumer Foodservice by Fulfilment. By 2028 Delivery is expected to account for 21.5% of global sales, compared to 18% in 2023. Consequently, the share of Takeaway is expected to decline from 18% in 2023 to 16% in 2024 along with declines in Eat-In and Drive-Through.'

4.



5. According to Colvin article written in 2022, McDonald's faced one of his biggest challenges in 2022 when it had to face to starting invasion of Ukraine carried by Russia. In his article, Colvin underlines the difficult choice that the company had to make in relation to the conflict which threaten the safety of over 50 Ukrainian restaurants and their staff and the public reputation of McDonald's regarding the 853 restaurants on Russian soil. The main problem related to this decision was that all the restaurants open in these two countries were directly managed by McDonald's, which could not therefore lean on the experience and the direct control of franchisees. As first response, the company decided to temporarily close all Ukrainian restaurants and support the employees by continuing to pay them their full salary. A later response concerned the 853 Russian restaurants that represented one of the biggest accomplishments that an American company had made in Russian soil. Although not easy to do, McDonald's decided to close all these restaurants as a standpoint against war and all types of

conflicts. McDonald's was thereafter followed by many western corporations that decided to stop their commercial activities in a country responsible of the starting of a war. Although the economic sacrifice, 8% of the company's annual revenues came from Russia, McDonald's saved its international reputation and was taken as an example by other multinational corporations.

References

1. McDonald's 2023 Annual Report.
2. Luke James, 'McDonald's Organizational Structure', Organimi, 2024.
3. Carla Tardi, 'Franchisee Definition, Examples, Benefits and Responsibilities', Investopedia, 2023.
4. Ron Ruggles, 'Who is McDonald's CEO Chris Kempczinski?', Nation's Restaurant News, 2019.
5. Michael Grothaus, 'Who is Chris Kempczinski, McDonald's new CEO? 5 things you need to know.' Fast Company, 2020.
6. 'Christopher Kempczinski President & CEO and Member of the Board', McDonalds, 2022.
7. Jonathan Maze, 'Chris Kempczinski to become McDonald's chairman', Restaurant Business, 2024.
8. Geoff Colvin: 'Inside McDonald's decision to sell all 853 stores in Russia', Fortune, 2022.
9. Christopher Kempczinski, 'Annual Letter to Shareholder', 2023.
10. www.portal-euromonitor.com
11. www.zippia.com/advice/mcdonalds-statistics/
12. <https://www.britannica.com/money/McDonalds>
13. corporate.mcdonalds.com/corpmcd/our-purpose-and-impact/jobs-inclusion-and-empowerment/talent-and-benefits.html