Final Memo:

McDonald's Corporation

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Technology Strategy

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Brief Corporate History

In 1954, Ray Kroc visited a small but successful restaurant run by Dick and Mac McDonald in California. They provided only a limited menu—burgers, fries and beverages. Focusing only on such few items allowed them to achieve high quality standards and quick service times. Kroc then joined Dick and Mac McDonald as an agent. In 1955, he founded the predecessor of the McDonald's Corporation—McDonald's System, Inc. In 1961, Kroc bought the exclusive rights of the official name"McDonald's".

Kroc was often quoted as saying– "*If I had a brick for every time I've repeated the phrase Quality, Service, Cleanliness and Value, I think I'd probably be able to bridge the Atlantic Ocean with them.*" As a result, McDonald's has become one of the world's greatest fast-food restaurants.

Executive Leadership & Background

Steve Easterbrook joined McDonald's as a Financial Reporting Manager in 1993. Easterbrook has held numerous leadership roles in his twenty-year career with McDonald's, including serving as CEO of McDonald's UK, President of McDonald's Europe and Global Chief Brand Officer. Since 2015, Easterbrook has been President and CEO of McDonald's.

Kevin Ozan is responsible for financial direction for McDonald's, including profitable growth for the company and value enhancement for shareholders. Moreover, Ozan runs McDonald's accounting, internal audit, treasury, tax, global business services and investor relations functions. Since 2015, Ozan served as Executive Vice President and Chief Financial Officer for McDonald's.

Chris Kempczinski has plenty of experiences in the strategy and operations area. In his past career, he worked with some of the world's largest and leading consumer companies, including Procter & Gamble, PepsiCo and Kraft Heinz. As the president of McDonald's USA, Kempczinski is committed to evolve McDonald's to be more modern and progressive than recognized by consumers.

Corporate Vision & Mission

McDonald’s mission statement is officially stated as follows: “*Our mission is to be our customers’ favorite place and way to eat & drink. We’re dedicated to being a great place for our people to work; to being a strong, positive presence in your community; and to delivering the quality, service, cleanliness and value our customers have come to expect from the Golden Arches – a symbol that’s trusted around the world.*”

In its mission, McDonald’s is dedicated to becoming the best place not only for people to eat and drink but also work. In addition, McDonald’s developed into a global restaurant business to bring its value and experiences to the wholeworld.

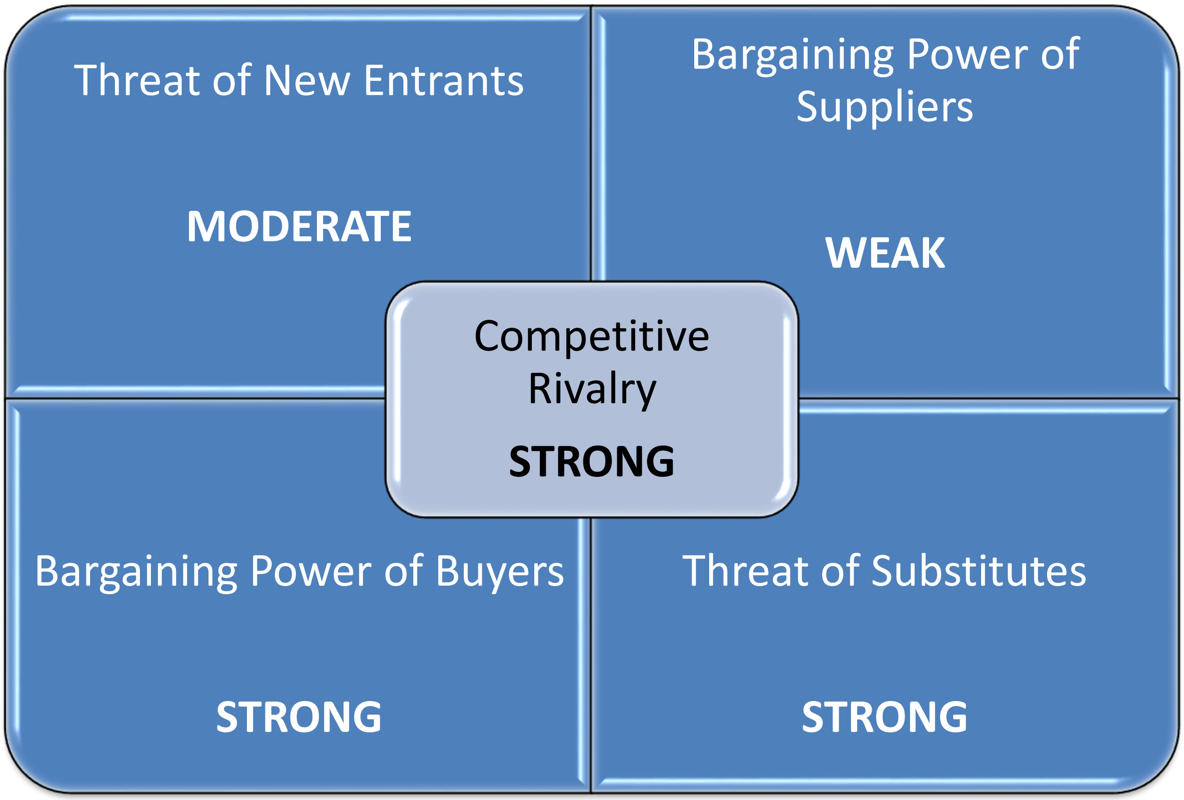
McDonald’s vision statement is as follows: “*Our overall vision is for McDonald’s to become a modern, progressive burger company delivering a contemporary customer experience. Modern is about getting the brand to where we need to be today and progressive is about doing what it takes to be the McDonald’s our customers will expect tomorrow. To realize this commitment, we are focused on delivering great tasting, high-quality food to our customers and providing a world-class experience that makes them feel welcome andvalued.*”

In its vision, McDonald’s emphasizes the importance of staying abreast with the times, which means catching trends and making sure they bring excellent experiences to its customers. To achieve that, high quality products and services are the keys.

Statistics

McDonald's is the biggest fast food chain worldwide as far as both income and brand esteem are concerned. In 2016, the organization had a brand value surpassing 88 billion U.S. dollars – more than twofold its nearest contender, Starbucks. McDonald's is a major player in the United States fast food industry – an industry which is expected to create 223.9 billion U.S. dollars in 2020. In 2015, McDonald's represented right around one fifth of themarket.

Five Forces Analysis



1. Competitive Rivalry

The fast food restaurant industry is one of the most competitive businesses today. With so many multinationals as well as local restaurants having nearly identical menus, the competition is becoming intense with each player in the industry striving for market share. A certain level of saturation has developed. The competitors of McDonald’s are other restaurant chains such as Starbucks, Shake Shack, KFC and in many countries local restaurants as well. Each player is aggressively spending on advertising and innovating in deals and menus, and continuously opening new franchises to increase their access to new potential customers.

2. Threat of New Entrants

On the international level, the threat of new entrants is a weak force as there are several entry barriers. To become a successful competitor of McDonald's, the entrant would have to create many outlets throughout the globe which would requires a massive capital investment and in a very short time. The entrant would have to quickly establish economies of scale to become profitable, set up a supplier chain by identifying capable and reliable suppliers of meat and other raw material. And of course the entrant would have to carry out extensive marketing & promotional campaigns to create awareness amongst consumers. Any new entrants would find the exercise and effort to step in and compete, daunting and cumbersome. However, the same threat is higher on a local scale where the investment is not high. These local outlets can give competition to McDonald's easily.

3. Bargaining Power of Suppliers

The raw materials such as chicken and potatoes that McDonald's uses for its products are available through many suppliers. Also, the orders of McDonald's are massive on a routine basis. There are several suppliers who would be enthused to become part of McDonald's supply chain. Thus, the suppliers are in no position to bargain with McDonald's or attempt to force it to increase its prices. McDonald's can easily switch suppliers with little switching cost.

4. Bargaining Power of Buyers

The customers of McDonald's have many options available in the market today. They can easily switch from one restaurant to another without any switching cost if they are dissatisfied. Customer loyalty to fast food restaurants is decreasing day by day with so many competitors. The customers can easily protest any price increases by McDonald's and shift to other competitors. This puts the buyers in a strong position of bargaining to influence McDonald's to retain its prices if it wants loyal patrons.

5. Threat of Substitutes

The substitutes of meals of McDonald's are the meals of other slightly different fast food restaurants such as KFC, newer competitors with focused offerings like Starbucks and Shake Shack and also home cooked meals. Bakery products are also substitutes of McDonald's products. Most of these substitutes are competitive in terms of consumer satisfaction and quality. Switching to these substitutes does not have any associated switching costs. Also, many health concerns have been raised against the products of McDonald's causing consumers to switch to other healthier substitutes.

The Strategic Intent

"To Improve Our Exposure to the younger audience and increase footfalls by adding value to apersonalized experience to each customer aided by our current digitization strategy"

A little fact check-

- 25% of people have at least 1 restaurant app on their phone
- Customers in the US are more willing to try new food than they were only a decade ago
- 54% of people try to eat healthy when they buy food from outside
- Millennials' demand for food tailored to their tastes is increasing.

Value Proposition

Customers use our App to pick out their favorite McDonald's items a la carte or make a meal. A modification to the existing app gives customer the ability to –

- Add more ingredients
- Satisfy their health – conscious appetites
- Open the door for the relatively absent vegan customization, especially in the US

We can also bring in the following international menu options to engage customers and aid in propelling our customized burger strategy -

- McVeggie Burger from India,
- McFeast Burger from Australia,
- Mushroom Burger from Qatar,
- McPork Burger from Japan.

The above modifications will not only feature in the mobile app but also on the restaurant menu.

Business Model

The business model that McDonald's adheres to benefits from the following competitive advantages –

1. Cost Leadership
    - Supply chain: McDonald's buys supplies in bulk and gets lower prices
    - Real Estate: McDonalds leases land and property that it owns to franchisees, which accounts for 82% of its restaurants and also85% of its revenue through royalties and proceeds from a percentage of sales
    - Marketing: McDonald's is a well-known brand name and Ronald McDonald is a well-known mascot, too. Hence, McDonald's needs to do lesser advertising than many other chains to maintain awareness/recall of their brand.
    - Strategic customer selection: McDonald's entices its target customer segment with tasty, high calorie fast food which is served with ultra-fatty sauces often with a `soda only` drinks selection. This makes for an unhealthy and fattening, albeit lip smacking meal.
2. Differentiation

    McDonald's believes in opening its restaurant with full understanding and knowledge of, and respect for the local culture and tastes. The company caters to a large customer market with varying tastes and thus can't afford to introduce products without familiarizing itself with provincial preferences in food. For this reason, McDonald's distributes its products in foreign locations with the help of franchisees who are well-aware of what works in their country.

This is an extremely intelligent distribution method because on the one hand, it doesn't create rifts between governments and McDonald's officials, and on the other hand, it helps in providing people with the kind of products they desire. It is important to understand that McDonald's doesn't change its basic product range for any country but tries to introduce certain changes in secondary products to make them acceptable to preferred local tastes. Examples like India's successful "McAloo" burgers are testament to one of many such successful strategies.

Our Recommendation -

The "Three-Legged Stool" consisting of the owner, the supplier, the employees and their symbiotic relationship depicts a simplified business model canvas that lends perspective to its business plan.

To incorporate our changes, we would like to see the strategy tweaked with our recommendations. The app becomes central to our plan of interacting with millennials and Gen-Z alike while continuing to aid our current efforts to digitize the restaurants.

The burger was once the only selling point of a McDonald's restaurant but since the expansion of the menu to capture the acceptance of a wider audience, the burger has taken a back seat. Nevertheless, market research shows people are responding to new burger offerings and one route McDonald's could take with the burger is customize it. The product would be app/digital kiosk based only, with a base price of $1.40 and each ingredient adding to the cost of the product. The idea is to base the product on a successfully running current burger but with added customization where an individual component costs much lesser than an entirely different product, so the customer can see more value in customizing his/her burger. The idea can be tested in the New York area and then expansion can happen gradually throughout the US. This product won't require additional installation costs and could also be expanded with more customization options in other base product burgers, as McDonald's pushes for a digital friendly service era.

McDonald's must look to consolidate their relationships with their suppliers to bring in the healthiest organic ingredients while continuing to maintain high standards in supplying everything else. A marketing plan to publicize this effort would positively affect restaurant footfalls since consumers have been critical about the lack of healthy ingredients on McDonald's menu.

Go-To Market Plan

For the market plan, we solve the problems mentioned before by letting our customers customize their burgers through our app. As mentioned earlier, our target market is theMillennials and Gen-Z alike and we want to reach out to the on-the-go customer like the young business professional and student. The goal is to meet the demands of our target customer segment so that we keep the customer and their social circle coming back to McDonald's while allowing the strategy to organically grow throughout the country.

At first, we use targeted online advertising using our currently existing customer information database. Social media platforms like Facebook, Instagram, Twitter are primed for broad demographic advertising. It is the easiest way to reach a large population with comparatively lesser investment.

Second, we launch our customizable burger program on a trial basis at certain targeted locations. We will initially begin at locations with diverse populations like TimesSquare McDonald's, Union Square McDonald's and Wall Street McDonald's, where the footfall is also large. By doing so, we can collect user feedback and preference from our customers.

Third, the collected data will allow McDonald's to provide exclusive coupons and promotions to our App users. These coupons are based on different preferences generated from different customers. This is to create customer perception that McDonald's is listening to their demands and delivering on them. This continuous process of collecting data from customers and providing value to them because of the collected databecomes a cyclical processwhich benefits both McDonald's as well as the customers.

Finally, big data can also help McDonald's to cut down their costs. Learning customer preferences can benefit McDonald's by optimizing their inventory based on usage and requirements. This makes their supply chain more efficient and cost effective.

Financial Analysis and Calculations

Business Assumptions and Estimation:

- 1800 customers/store/day who choose to have burger
- Suppose initially 600 opt for customizable burger and 1200 for normal burger
- For the ease of calculations let's assume 1burger / customer
- Project exclusive for 250 stores in New York City
- Cost of a Normal Burger (Cn): $1, Cost of Customizable Burger (Cc): $1.4
- Price of a Normal Burger (Pn): $1.4, Base price of a Customizable Burger (Pc): $2.2
    - *This is the base price. Price will increase depending on the number of items customer chooses*
- Cost of introducing healthy and vegan options: 1 Million
    - Since we are looking to expand our customer base through this recommendation
- Cost of updating an app: 1 Million
- Cost related to the updating and developing the app over one year: 2 Million
    - *This includes salary of the employees working on the app as well*
- Cost of Marketing across all the stores: 25.8 Million
    - *In USA McDonald's has 14146 stores and the cost of marketing for all of the stores was around $1.46 Billion. Hence, for 250 stores, assuming uniformity, approximately the cost comes to $25.8 Million*
- Cost of initial marketing: 7 Million
- Renovation of the five stores: $750,000/store = 3.75 Million

- *Initially, we are planning to introduce this recommendation only in five stores at prominent locations in New York City. Hence, we need to revamp them for our recommendation to be more visible to our customers*

- Overhead costs: 2 Million

Total Initial investment/year (I): $42.55 Million

Important Numbers:

- Cost of Normal Burger for all stores/year (Tn) = Number of customers x 365 days x Number of stores x Cn = 1200 x 365 x 250 x 1 = 109500000
- Cost of Customizable Burger for all stores/year (Tc) = Number of customers x 365 days x Number of stores x Cc = 600 x 365 x 250 x 1.4 = 76650000

Total cost for Burgers(C)/year = Tn + Tc = $186.15 Million

- Price of a Normal Burger for all stores/year (Rn) = Number of customers x 365 days x Number of stores x Pn = 1200 x 365 x 250 x 1.4 = 153300000
- Price of Customizable Burger for all stores/year (Rc) = Number of customers x 365 days x Number of stores x Pc = 600 x 365 x 250 x 2.2 = 120450000

Total Revenue for Burgers(R)/year = Rn + Rc = $273.75 Million

Profit for one year = R - C – I = $45.05 Million

Overall Profit margin: 16.49%

Increase in profits only in terms of burgers is

33.43%

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