



McDonald's Corporation

Business Case Project Report

Tutorial 01 Group 2

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Contents

Introduction	3
Value Proposition	5
Products	6
Brand Image	7
External Environment	7
Political Factors	8
Economic Growth and Stability	8
Sociocultural Trends	9
Technological Advancements	9
Competition	10
Competitive Advantage and Strategic Focus	11
Opportunities	11
Threats	12
Core Problems	12
Proposed Solutions	14
Managerial Recommendations	16
References	18
Appendix	22





McDonald's Corporation

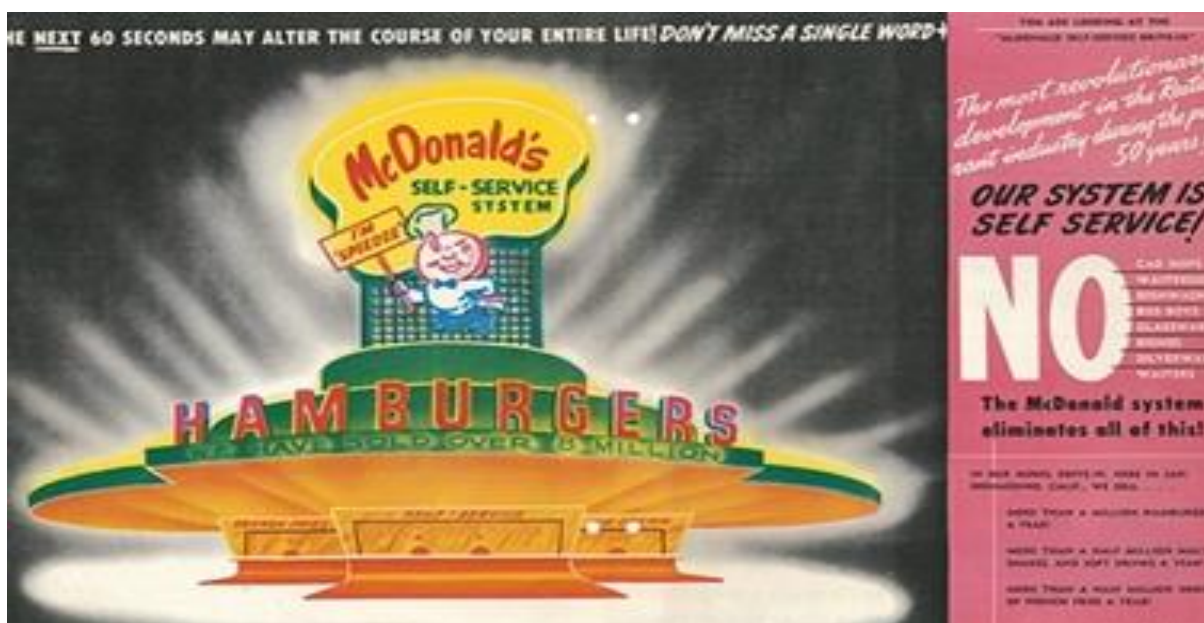
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Introduction

The McDonald's Corporation owns, operates and franchises over 40,000 McDonald's restaurants across 119 countries. The franchised restaurants are operated as either a conventional franchise, developmental license or an affiliate structure, that is based on a variety of factors including the availability of individuals with sufficient entrepreneurial experience and financial resources, as well as the local legal and regulatory environment around property ownership and franchising. The business relationship between the McDonald's Corporation and its independent franchisees requires that all parties adhere to the Global Brand Standards that are of fundamental importance to protecting the McDonald's brand.

The McDonald's Corporation is primarily a franchisor (figure 1) and the company believes franchising is paramount to delivering great-tasting food, locally relevant customer experiences and profitability anywhere in the world. Franchising enables individuals to “be their own boss” and maintain control over employment, marketing and pricing decisions, while also benefiting from the strength of the brand, operating system and global resources of McDonald's.

Figure 1

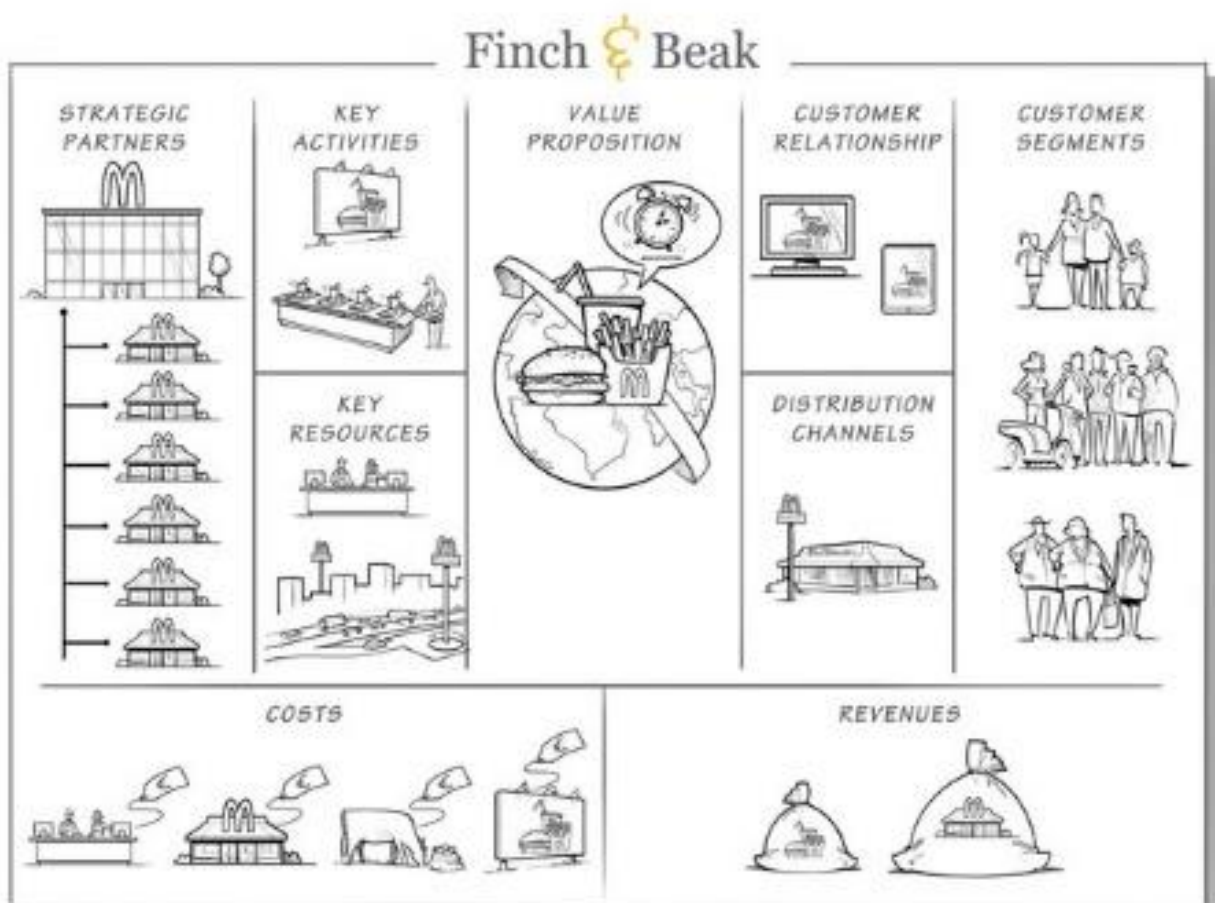


Note. From *McDonald's Self-Service System* by American Restaurant Magazine, 1952.
(<http://www.highwayhost.org/Mcdonalds/mcdonalds1.html>)

Under a typical franchise arrangement, the Corporation generally owns or leases long-term the land and building while the franchisee pays for equipment, signage, restaurant seating and store décor, on a standard twenty-year term. The company requires franchisees to meet rigorous standards that are designed to facilitate consistency and high quality at all McDonald's restaurants. Franchisees contribute to the company's revenue through the payment of rent and royalties based upon their gross sales, with specified minimum rent payments and initial fees paid upon the opening of a new franchise also. The McDonald's business model (figure 2) is designed to generate stable and predictable revenue for the company, largely a function of franchisee sales and the resulting cash flow streams.

Figure 2

The McDonald's business model



Note. From *The McDonald's business model canvas* by J. Van Der Kaaij, 2022, Finch & Beak. (<https://www.finchandbeak.com/1072/the-mcdonalds-business-model-canvas.htm>). Copyright 2022 by Finch & Beak.

Value Proposition

The McDonald's Corporation has five core values that define who the company is and how it does business as the filter through which all business decisions are made. Actions speak louder than words and the company believes that its people are what sets it apart from its competitors, by bringing these values to life, around the world, each and every day.

Purpose to feed and foster communities

Mission to create delicious feel-good moments for everyone



Serve: We put our customers and people first



Inclusion: We open our doors to everyone



Integrity: We do the right thing



Community: We are good neighbours



Family: We get better together

“This is how we uniquely feed and foster communities. We serve delicious food people feel good about eating, with convenient locations and hours and affordable prices, and by working hard to offer the speed, choice and personalization our customers expect. At our best, we don't just serve food, we serve moments of feel-good, all with the light-hearted, unpretentious, welcoming, dependable personality consumers know and love.” (McDonald's, 2022).

The company has over 200,000 direct employees and a further 2,000,000 people work in a McDonald's franchisee. The company and its franchisees purchase food, packaging, equipment and other goods from numerous independent suppliers but enforce established high food safety and consistent quality standards from all their suppliers around the world.

Working closely with its suppliers, McDonald's leverages its scale to encourage continuous innovation that drive improvements across its global supply chain. The company collaborates with suppliers to achieve continuous supply of goods at a competitive and predictable price but also to drive sustainable sourcing initiatives, including environmental matters and welfare improvements of the animals within its supply chain.

Products

McDonald's restaurants offer a substantially uniform menu everywhere, although there are some geographic variations to suit local consumer preferences. Taste, quality, choice, nutrition and value for money are important to its customers and McDonald's continuously evolves its menu to meet their customers' needs.

The standard menu (figure 3) includes hamburgers and cheeseburgers, the Big Mac, Quarter Pounder with Cheese, Filet-O-Fish, several chicken burgers, chicken nuggets, french fries, salads and wraps, shakes, desserts, sundaes and soft serve cones, bakery items, soft drinks, coffee and other beverages plus a variety of other products at different times through special promotions.

In response to increasing obesity trends and the criticism of its products as being bad for your health, McDonald's has modified its menu to include healthier salads, wraps and fruit alternatives available as options. Some McDonald's restaurants also offer a breakfast menu that includes egg and sausage muffins, hash browns, breakfast burritos and hot cakes.

Figure 3



Note. From *McDonald's unveils the future of its business, from minimalist packaging to high-tech, triple-drive thru stores* by M. Meisenzahl, 2020, Business Insider. (<https://www.businessinsider.com/mcdonalds-drive-thru-improvements-and-new-packaging-2020-11>). Copyright 2020 by McDonald's Corporation.

Brand Image

The primary brand image is the McDonald's Corporation's logo and their Golden Arches (figure 4). The red and gold combination attracts attention and triggers the stimulation of appetite and hunger, as well as being easily observed from a distance in daylight. It is purposely used so that the golden arches can be seen from a distance by customers in their cars as they approach a restaurant's location (DesignRush, 2022) using the primary colours that resemble the classic hamburger condiment colours of ketchup and mustard, symbolic for McDonald's.

Figure 4



Note. From *Media assets library* by McDonald's Corporation, 2022, McDonald's Corporate Website. (<https://corporate.mcdonalds.com/corpmcd/our-stories/media-assets-library.html>). Copyright 2022 by McDonald's Corporation.

External Environment

The general trends and external factors that can affect a company's profitability are crucially important considerations in the development and implementation of a strategic marketing plan for a multinational corporation like McDonald's that operates in a highly competitive global environment.

PEST is a conceptual framework used to scan the macro environment and gauge the major political, economic, social and technological forces that can affect a company's success. It provides an effective method for analysing the risk factors that might impact the future performance of McDonald's and informs the planning of the corporation's marketing strategy, to forecast and respond to any imminent changes in the external environment and stay ahead of its competitors.

Political Factors

The global scope of the McDonald's business means the corporation encounters many differing geopolitical and regulatory environments within and among the more than 100 countries where the restaurant chain operates.

Political factors such as a country's attitude to foreign investment or centrally planned financial policies heavily regulated by a nation's government make international operations difficult. Additional challenges are associated with operating in developing markets where political instability can complicate trading due to a lack of consistency in how local laws are applied and enforced.

Disruptions can also result from governmental actions or changes to policies that affect how products are produced, packaged, labelled and promoted or the price at which they are sold in a particular country, requiring McDonald's to continually adapt its international operations and marketing in order to comply with the increasingly complex, conflicting and highly prescriptive regulations and restrictions imposed in foreign jurisdictions.

Economic Growth and Stability

The economic factors that affect consumer purchasing power are crucially important to McDonald's because of their impact on spending patterns. In periods of prosperity, consumer confidence and disposable income is high making product pricing a less sensitive issue. However, during a recession, spending power decreases as unemployment rises, making pricing more critical to sales.

Differences between countries in different stages of industrial development and the relative income levels of their population also influence price variations; countries with lower economic development require a lower price for products to be considered desirable. Lower levels of literacy also pose problems to McDonald's in marketing and limit the effectiveness of the corporation's promotional abilities abroad.

Global impacts resulting from the COVID-19 pandemic have further disrupted economic and market conditions, with adverse pressure on labour availability, increased costs due to supply chain volatility and potentially permanent changes in consumer attitudes and behaviour in

response to public perceptions and government mandates around the health and safety risks associated with virus transmission and infection prevention.

Sociocultural Trends

The sociological factors and cultural trends relating to youth-orientated family structures that contributed significantly to the rise in popularity of McDonald's through the 1960s to 1980s as the preferred choice of restaurant among children and teenagers are no longer considered relevant to social trends today.

The changing tastes of consumers now reflect the lifestyle changes being adopted by society to counter the increasing rates of obesity around the world. Particularly among young people from the middle class, McDonald's customers have grown increasingly health conscious and the fast-food chain has been forced to adapt to the influence of this driving social factor with menu items focused on lower calories and made from fresh ingredients, "doing away with frozen burgers and upending a decades-old supply chain in the process" (Thomas, 2019).

Similarly, a new era of corporate sustainability has risen as a social shift globally, changing the buying habits of consumers towards environmentally conscious companies that care about sustainability. McDonald's has needed to reduce its use of plastics and Styrofoam packaging in order to align with this change in consumer attitude that is now considered the social norm and aims to recycle 100% of its product packaging produced from renewable sources throughout its restaurant locations worldwide by 2025.

Technological Advancements

Advances in technology are the external forces that create new opportunities for sales and marketing through disruptive changes to the environment and changing consumer attitudes, lifestyles and social habits.

Spurred by the changing environment of the 1940's, brothers Maurice and Dick McDonald were disruptive innovators in their day, figuring out a more efficient way to make hamburgers by simplifying the menu and reorganising the kitchen. With an emphasis on speed, lower prices and volume, the Speedee Service System was invented (figure 5) and had "a new kind of spatula, a new dispenser that squirted the same amount of ketchup and mustard every time, and

a rotating platform to speed up the process of assembling of burger, bun and condiments” (Harford, 2020). “I didn’t invent the hamburger. I just took it more seriously than anyone else” (Kroc, 1977), creating a fast-food revolution around the world that continues today.

Figure 5



Note. From *How McDonald's revolutionised business* by T. Harford, 2020, BBC. (<https://www.bbc.com/news/business-51208592>). Copyright 2020 by Getty Images.

“It was a restaurant stripped down to the minimum in service and menu, the prototype for legions of fast-food units that would later spread across the land. Hamburgers, fries and beverages were prepared on an assembly line basis and, to the amazement of everyone ... the thing worked! Of course, the simplicity of the procedure allowed the McDonald’s to concentrate on quality in every step, and that was the trick.” (Kroc, 1977, pp. 70-71)

Having a “foundation of consistent processes allows businesses the flexibility to innovate and adapt to consumers' concerns and improve the brand with minimal disruption” (Bailey, 2020) meaning that the McDonald’s Corporation can continue to avoid the ‘incumbent curse’ and not succumb to technological stagnation.

Competition

McDonald’s restaurants compete on price, convenience, service, experience, menu variety and product quality, in a highly fragmented global restaurant industry. The company measures itself using the ‘informal eating out’ (IEO) segment defined by Euromonitor International, which is inclusive of all fast-food competitors, home delivery providers, cafés and coffee shops, street stalls, kiosks and juice bars. The global IEO segment is composed of over 10 million food

outlets generating one trillion annually yet McDonald's restaurants account for less than one percent of IEO outlets and fewer than ten percent of IEO sales.

Burger King, trading as Hungry Jack's in Australia, is McDonald's largest and most similar direct competitor, challenging the Big Mac's supremacy with their Whopper. Wendy's also serves classic American burgers and fries, competing with McDonald's for market share. The Yum Brands conglomerate behind the fast-food franchise concepts KFC, Pizza Hut and Taco Bell., competes with McDonald's both for customers and new franchisees also. With more store locations than McDonald's, Subway is a healthier fast-food chain competing with McDonald's for customers, as is Starbucks to a lesser degree, competing for coffee convenience with McCafe.

Competitive Advantage and Strategic Focus

Opportunities

Going into the COVID-19 pandemic, the popularity of food delivery apps skyrocketed due to global lockdowns not allowing people go out to restaurants. Consumers got use to this convenience so much so that delivery and the convenience it brings became an expected offer within the total product offering. The value that delivery brings through increased productivity through time saving, reduced effort and decreased hassle are all elements of value that modern consumer highly seeks.

Consumers don't consider fast-food options to be healthy with 95% of consumers stating that they consider fast-food harmful to health (Global Journal of Health Science), this becomes particularly difficult when consumer health consciousness has increased by 8.7% since 2015 (IBISWorld.) McDonald's can capitalise on this trend by incorporating healthy options into their menu.

McDonald's is a truly global company operating in over 119 countries around the world, this means that there is ample opportunity to offer tailored items to each country and culture to better fit the food culture.

Changing and rebuilding the brand image to more easily associate with the goals and values of modern consumers that being a higher focus on healthy options and increased environmental

sustainability. Doing so will enable consumers to see their own values in the brand thus helping build and foster brand loyalty.

Threats

The meat industry is notorious for the negative effects that it has on the environment and role it plays in global warming, where 35% of global emissions come from this industry alone (The Guardian). With environmental sustainability becoming an issue that consumers want to address, where reducing one's carbon footprint is a goal that many consumers aspire towards; to help align themselves with their customers environmental aspirations, McDonald's has committed to become carbon neutral by 2050.

The fast-food industry has always been highly competitive having to compete with other establishments like Burger king, Wendy's and KFC, however with the rise of food delivery apps and services it has blurred the line between fast food and restaurant delivery further adding competition to the market.

Developing new and innovative technologies whether it be new flavours or menu options, in-store experiences and drive through/ pick up changes is a risky and expensive you can never know for certain which ventures will be successful and this risk is a necessity for McDonald's to appropriately adopt to the changing consumer climate.

Core Problems

The fast-food giant MacDonald's has had to adapt to a variety of changes in the market over the 67 years of its existence, from its meteoric rise to stagnation and decline from 2014-2020. However, once the pandemic caused countries around the world to go into lockdowns something unexpected happened. McDonald's began to see massive jumps in profits and revenue, this is primarily due to changing consumer trends causing take-away options to become much more favorable and desirable. This is further proven by the fact that 70% of McDonald's sales in their top markets occurred at drive throughs, the massive buying behavior shifts to a more convenience driven demand is a critical problem for the fast-food giant must face. To effectively manage this opportunity McDonald's needs the resources to effectively track consumer trends and tastes so they can tailor their menu and shopping experience to

provide the most seamless and efficient experience possible. McDonald's was the pioneer of the "fast-food" industry; however, they have been lacking when it comes to changes to help enhance the user experience, one of their most recent innovations was self-service boards to make ordering your food faster in 2015. Unfortunately for McDonald's, the world has innovated to help create seamless food pick-up and delivery experiences through the use of apps like Uber Eats, Menulog and Deliveroo allowing for consumers to experience similar convenience and speed of service that McDonald's was known for but with much greater options and food quality. Consumers can order a burger from their favorite local restaurant through these apps and drive to the restaurant and pick it up without having to wait for it to be prepared completely cannibalizing on the unique product offering that McDonald's offers, convince. Whilst they can and have started to sell their food on these apps, this key differentiating factor of convenience is no different and no longer exists. It's just as easy to order and pick up curry from an Indian restaurant on Menulog as it is to get McDonald's. McDonald's entered a long-term strategic partnership with Uber on the 15 of November 2021 to help elevate this issue stating in a post on their company corporate website "Delivery is a significant component of McDonald's Accelerating the Arches growth strategy to drive the business forward while providing a fast, easy experience for customers" (McDonald's Australia, 2022).

Due to the staggering growth and popularity of food delivery apps, predicted to grow to \$290 billion (business of apps) showing a clear shift in consumer trends for greater convince, McDonald's needs to reevaluate their resources and capabilities to find strategies that can help them capitalize on this trend. It is for this reason that they must adopt their product in a way which brings them back to the forefront of convince and simplicity for consumers to maintain their competitive advantage in the face of the rising popularity of food delivery apps.

The modern consumer is more well informed and concerned about the importance of sustainability with ecofriendly businesses practices being a key issue for consumers which has led McDonald's to pursue the goal of becoming carbon neutral by 2050. The issue, however, lies in the fact that currently McDonald's has no plan about how to achieve this goal. This rising sustainability consciousness poses a difficult question for the fast-food industry, in how they can change their product to meet these consumer needs whilst still maintaining what makes their industry unique. The meat industry is notorious for the immense amount of pollution that it creates and causes where 35% of global emissions come from this industry alone (The Guardian). Changing their augmented product offer by becoming carbon neutral

will allow them to appropriately target aspects of purpose and goals that consumers can associate with building brand differentiation. This is especially useful in modern business that has shown a trend towards higher levels of elements that create value for consumers such as purpose-based values (vision, hope and social responsibility.) McDonald's lacks the resources to appropriately meet these consumer needs which in turn is causing them to come into a brand perception and customer relation issue; where they lack the appropriate brand image and perception to fit into modern consumer trends for purpose-based differentiation factors. By changing the pre-purchase expectations of consumers by raising the perceived quality of McDonald's through the goal of and achievement in becoming carbon neutral it will increase customer satisfaction and provide McDonald's with a new tangibly competitive advantage. Just in aiming and taking positive steps towards becoming carbon neutral will significantly aid their brand image, which they can leverage to create a competitive advantage, "Competitive advantage can also be based more on perception than reality" (Ferrell, 2014, p. 99). McDonald's lacks the appropriate technologies to currently achieve carbon neutrality by 2050, taking the steps to plan how to archive this goal will help in closely aligning their company values with that of consumers, raising customer satisfaction and thus building brand loyalty.

Proposed Solutions

Changes in technology and adaptation of the new hybrid business model, which will focus more on takeout and deliveries, are the tactics we would recommend for McDonald's.

Changing consumer preferences favouring increased takeout options.

Solution 1: First, get back to the basics. Focus on what made Maccas successful in the first place: fast food, increased emphasis on delivery and drive-in, and collaborations with food delivery apps. Reducing the menu to focus on classic dishes that require less preparation time. Digital alternatives – promotions and loyalty programmes – targeted marketing sent to customers via mobile phones (cheaper cost than general advertising).

McDonald's can strengthen its ties with food delivery apps by limiting the menu to the necessities, making it faster and healthier. The menu has been pared down to focus on classic recipes that take less time to make. Digital marketing options, including loyalty programmes

and promotions and personalised marketing delivered to customers via their phones, will reduce marketing expenditures.

Solution 2: Enhance the drive-through experience by incorporating AI intelligence. Customers will be able to skip the line and get their food even faster if express lanes are created. Drive-through efficiency will be improved by incorporating AI intelligence.

Nearly 70% of sales in top markets happen in the drive-through during COVID (Nast, 2022) and thanks to a new lane, app users can now skip the line and get their food even faster, possibly on a conveyor belt. When clients are close by, restaurant personnel can be alerted to prepare orders, and dedicated parking spots ensure that orders are picked up quickly. Since 2018, the average service time in their top markets has decreased by 30 seconds, increasing customer satisfaction (McDonald's, 2022). More than 10,000 restaurants worldwide might adopt new models centred on drive-thru, takeout, and delivery, with limited dine-in seating and a reduced business footprint. McDonald's has formed a strategic agreement with IBM to help it automate its drive-through lanes. Apprentice's technology employs artificial intelligence to understand drive-thru orders. (Meisenzahl, 2020).

The beloved McDonald's items that are the worst for the environment.

According to a carbon footprint calculator, the Big Mac, possibly the most iconic McDonald's burger, requires 2.35kg of CO₂ to be spewed into the atmosphere during its manufacture. A typical UK petrol car is the equivalent of driving 7.88 miles. (Boyd, 2021).

Solution 1: Increase the number of healthy food items, such as fruits and salads. Increase more vegan options in the menu, On the other hand, going back to basics may boost the number of healthy options because they are easier and faster to prepare. Well-managed beef production contributes to thriving food systems for people, animals, and the environment, ensuring beef sustainability.

Since its inception in 2017, McDonald's has been a member of the Australian Beef Sustainability Framework external stakeholder consultation committee (McDonald's Australia, 2022). Animal care, economic resilience, environmental stewardship, and people and community are the four principles that the framework defines for sustainable beef production. McDonald's has committed to research projects that will benefit the Australian cattle industry and ABSF goals. Beef sustainability will be the new successful change for McDonald's to

tackle this challenge. Beef is often credited to be uniquely carbon intensive compared to other food sources (The Economist, 2021). McDonald's, one of the largest beef purchasers in the world, along with other global companies have answered the United Nations call to reduce global greenhouse emissions (Russ, 2021).

Solution 2: Mobile marketing, mobile ordering, targeted promotions and digital loyalty.

McDonald's has launched My McDonald's Rewards, the first-ever points-based loyalty programme in the United States, in July. Customers gain 100 points for every dollar spent in the reward programme. We can use your points to get a hash brown, a cheeseburger, or a McChicken for as little as 1,500 points. McDonald's offers its rewards programme exclusively through its mobile app.

One of the critical advantages of McDonald's loyalty programme is that it allows the company to quickly acquire vital first-party customer data while also gaining approval to do so. This is critical because corporations like Facebook frequently acquire client data opaquely. For example, firms frequently exploit our online behaviour, including the websites we visit, to offer us more targeted advertisements. After viewing a pair of trousers on one website, they will see an ad for an identical pair of pants on another website.

Retailers can circumvent the privacy regulations by gathering data directly from their customers through a loyalty programme. One of the obvious advantages of having more digital customers is that it allows merchants to collect more detailed client information. The data can then be utilised to offer clients more personalised promotions. For example, 68 per cent of American people polled stated they enjoy it when companies make personalised offers based on their purchasing history (Jarvenpaa & Todd, 1996). Consider how often we have bought something else while shopping on Amazon because Amazon recommended something that was a perfect match. One of the obvious advantages of having more digital customers is that it allows merchants to collect more detailed client information. The data can then be utilised to offer clients more personalised promotions.

Managerial Recommendations

Overall McDonald's should focus on two major solutions for both the problems.

1. Changing and improving drive-throughs

2. Controlling their CO2 emissions in healthy and sustainable ways.

McDonald's will have another opportunity to lead the market by opening more net-zero carbon outlets.

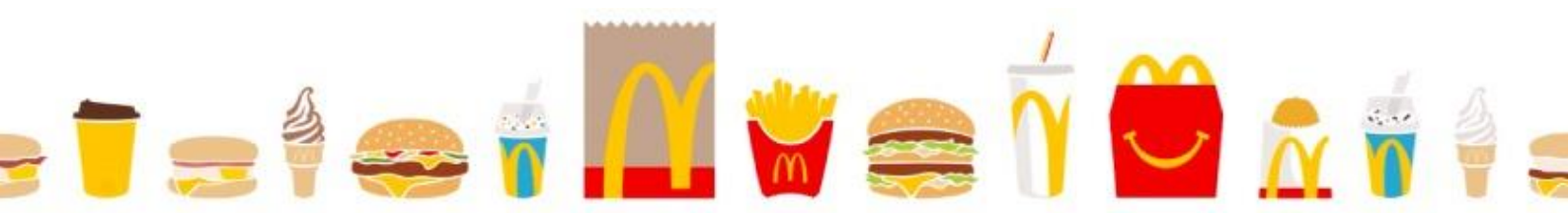
Reducing carbon emissions

The kerbstones are created from plastic bottles that have been recycled. As a result, they are recycling old plastic and lowering carbon emissions by 25 kilograms per kerb when compared to concrete kerbs. The new McDonald's plans improve the sustainability factor, aligning with McDonalds' present aim of achieving net zero emissions for their whole business and value chain by 2040 and working with suppliers and franchisees to make a beneficial influence on climate, the current recommendations will be to focus on the two major problems proposed in this research.

McDonald's should consider the following changes and timeline in order to reach its net zero emission goal.

McDonald's has successfully achieved its current year's goal of having its first UK industry net zero emissions standard restaurant and create a blueprint for freehold new builds. Following the future goals if McDonald's follows the pathway they have planned, McDonald's can tackle the issue of carbon emissions. McDonald's is also planning on using furniture made of recycled or certified materials that can be recycled or reused at the end of life.

By 2030, achieve net zero emissions for all restaurants & by 2040, achieve net zero emissions for entire business.



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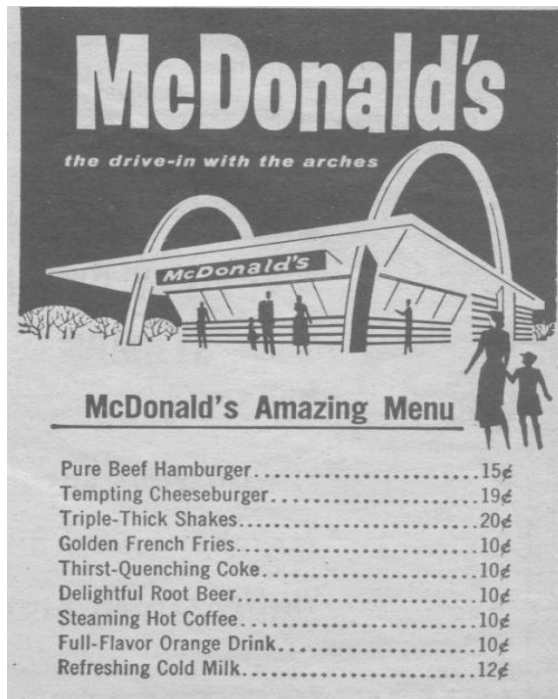
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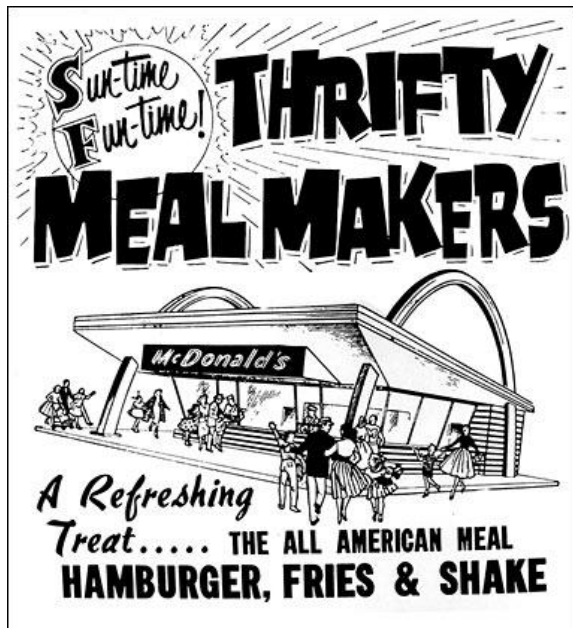
Appendix

Figure 6



McDonald's amazing menu

Figure 7



Circa 1955 advertisements



Note. From Kummerlowe Archive by Highway Host 2001.
(<http://www.highwayhost.org/Mcdonalds/mcdonalds3.html>)