

McDonald's Corporation



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Corporate Report

McDonald's Corporation: Executive Summary

With over 30,000 restaurants operating in more than 100 countries worldwide, McDonald's is able to serve 52 million customers per day, undoubtedly laying claim to the leading global foodservice retailer. Priding itself on its well-known products, such as the Big Mac and Egg McMuffin, McDonald's was able to generate 2007 revenues of \$22.8 billion, a record high in the 54-year history of the fast-food franchise. As a strong competitor in the global market, McDonald's Corporation constantly faces the test of not only improving its profitability, but also its social and environmental performance. Recently, McDonald's has embraced the globalization trend that is sweeping multinational corporations all over the world, and is taking large steps in tailoring its products and services to the demands of its local customers. Beginning with its introduction of computerized point-of-sale systems over 30 years ago, McDonald's continues to effectively utilize advancements in technology to improve its overall operation efficiency. Perhaps the most powerful force affecting McDonald's Corporation's lines of business today is sustainability and the recent "green" movement that is at the forefront of its social responsibility and values system. In this report, we will analyze three major trend that are affecting McDonald's' operations and reputation and discuss how the corporation is adapting to these forces in the global market.

Globalization

McDonalds is a prominent global force and symbol of globalization. It was one of the first companies in the fast food industry to globalize, which has had positive and negative impacts on the company. McDonald's initial strategy was to take their standardized American practices to foreign countries. This strategy was met with resistance which forced the company to move to an internationalization strategy where they adapted their products and customer service to the domestic country (Heer and Penfold 1). For example, McDonalds introduced "Aunt and Uncle McDonald" in China because of the country's emphasis on family values (Heer and Penfold 1). In Russia, McDonalds hired hosts to help customers adapt to the fast food environment, which previously did not exist in this country (Bryman 154). However, because of their initial unsuccessful globalization strategy, McDonalds faced cultural clashes and protests in many locations. Japan has criticized McDonalds for increases in national obesity, and Dinan and Millau have suffered protests on McDonalds' stores as a symbol of unwelcome globalization (Spano 7).

As a method to keep costs low, McDonald's maintains their production strategies when they enter new countries but frequently adapts product choices and service to the predominant practices of the hosting country. McDonald's was one of the first companies to value the importance of local cultural practices and traditions. This has allowed them to adapt the theory of internationalization, which is more readily accepted than that of standardized globalization. In fact, internationalization has become so engrained in McDonald's culture that they've developed the term "McDonaldization," which is the "the process by which the principles of the fast-food restaurant are coming to dominate more and more sectors of American society as well as the rest of the world" (Heer and Penfold 1). One of the most visible examples of McDonald's adaptation to local food preferences is its change of menu items to conform to local food availability. On the Canadian east coast, where lobster is readily available, McDonald's has developed the McLobster, which is a lobster salad sandwich. In Quebec, McDonald's offers a local favorite, French fries topped with gravy and cheese curds. In Egypt, the McFalafel responded to local food preferences, and in Finland, the McLuks salmon burger is preferred over beef burgers ("Studying McDonald's abroad: overseas branches merge regional preferences, corporate directives" 1).

McDonald's maintains strict regulations for its suppliers to provide their customers with consistent and safe products in each of its restaurants. If suppliers cannot meet these demands, McDonalds adapts a vertically integrated supply chain in some countries even though it is not their standard practice in the United States (Vignali 97). This makes it easier for McDonald's to access raw materials in certain countries. For example, in Russia, McDonalds purchases their meat through a very specific process due to local regulations that don't comply with their standard process (Vignali 97). Though McDonalds tends to use their standardized processes in most countries, they adapt when necessary to meet legal and cultural expectations.

Even though McDonald's has made a lot of improvements in their globalization strategy, they've met resistance from critics who believe that the "proliferation of franchise restaurants symbolizes everything that's wrong with globalization" (Spano 7). McDonald's learned the importance of respecting historical cultures from an incident in Oaxaca, Mexico, where the central plaza hadn't been changed in 473 years until a local property owner leased his store to McDonald's. Residents believed that fast food was not a part of their culture and resisted the infiltration of the franchise. McDonald's eventually moved outside of the central plaza to respect the cultural expectations of the local residents (Boudreaux 1).

Techno-Science

Techno-science is one of the leading forces that has affected and will continue to influence McDonald's. As with any industry, techno-science has immensely shaped the fast food industry. It has helped improve customer experience and improve the products. McDonald's has always been at the forefront of technology. They were the first company in the fast food industry to implement computerized point-of-sale systems in the 1970s and utilize touch-screen computers for order entry in the early 1990s (Anonymous). Both of those innovations are now commonplace in the industry.

The modern customer experience has been altered by techno-science. McDonald's has been remodeling their restaurants with technology. Leather chairs, fireplaces, plasmas, wireless internet, outlets for laptops, and video game kiosks are all elements being added to McDonald's (Arellano). This allows McDonald's to be seen as a hang out place rather than just a quick stop for food. These technological remodels do not come at a cheap price. As of

2006, McDonald's had planned to invest \$1.8 billion to open 800 new restaurants equipped with this high technology and remodel 2,500 more restaurants (Arellano). At that point it had already remodeled 5,000 restaurants (Arellano).

Their success at implementing these innovative technologies is due to standardized systems. It can be very easy to implement one technology in one restaurant; however, it is much more difficult when you try to roll out that technology to over 30,000 McDonald's all over the world (Anonymous). By keeping with a standardized platform, implementation is simplified. Extraneous problems are minimized, which makes putting a new technology in place faster and less challenging.

Techno-science also plays a role in the evolution of products at McDonald's. The most important way this trend has affected the company is in the development of one of the most loved items on the menu, the french fry. The french fry has played a crucial role in McDonald's success, as they are more profitable than the company's hamburgers (Schlosser). The success however does not come from the kind of potatoes they make them with, or the method they use to cook them in restaurants. The real secret to the taste of the fry is the oil McDonald's uses to cook them with and for decades this was made from the same formula consisting of about seven percent cottonseed oil and 93% beef tallow. This oil gave the french fries their unique taste, but also more saturated beef fat per ounce than a McDonald's hamburger (Schlosser).

In 1990 McDonald's faced an increasing amount of criticism over the high cholesterol levels of their fries and, in the face of this criticism, switched the oil they used to vegetable oil. They switched the oil again in 1992 to what they thought would be a healthier, partially hydrogenated vegetable oil. This oil however was packed with dangerous trans-fats, which could lead to clogged arteries and possibly contribute to type II diabetes (Schmeltzer).

Facing a new criticism about their oil and a deadline from the food and drug administration to remove trans fat by 2006, McDonald's turned to techno-science to help them create a new oil that not only would be free of trans fat, but also retain the same taste of the previous oils. McDonald's first began experimenting with trans-fat free oils in 1999. They employed Cargill Inc to lead scientific blending and testing of oils, while McDonald's tested how the different oils cooked and tasted. They finally settled on a blend of canola and soybean oils, synthesized at Cargill solely for McDonald's use. The oil is said to produce "a

slightly crisp, light golden brown fry,” after being cooked for exactly three minutes and ten seconds (Schmeltzer). The question McDonald’s was most concerned with however, was how the new french fries would taste. According to Kevin Cook, McDonald’s senior vice president for U.S. restaurant systems, customers in field tests of the new oil have repeatedly said they can’t discern a difference between the new and old oils (Schmeltzer).

The demand for the oil by McDonald’s in American has also caused other problems. There is a limited supply of the special high-oleic-acid canola oil and soybean seeds needed for the new oil. Farmers have been seeking higher payments from oil producers to make the switch to the new crops needed to make these ingredients and Cargill has said that it needs to secure more contracts with farmers to be able to meet the demand (Schmeltzer). In the end however the investment in the new oil will pay dividends to McDonald’s as it prepares for the future. New York City has already established a ban on trans-fats in the cities restaurants and Chicago and California are considering the same measures.

With the help of techno-science, McDonald’s will be able to adapt their business for these changes. In fact the new oil produced by Cargill has ingredients that decrease bad cholesterol and increase good cholesterol. While this won’t make the french fry a health food, it will make it much healthier, and with the main criticism of causing obesity that McDonald’s faces, the use of techno-science will greatly help the public opinion of McDonald’s for years to come.

In the future, technology will play a larger role than ever in how McDonald’s fares against its competition. They must make smart decisions about which technologies to invest in however. All of their new technologies must fit within the “Plan to Win” which is a “strategic roadmap [...] of being the customer’s favorite place and way to eat” (Anonymous). Every new technology must align with that philosophy. A Store Technology Board has been set up to oversee new technologies, and make sure that these new technologies are cost effective and high quality. Some technologies have been tested in stores which have not been parallel with the “Plan to Win” strategy. Digital menu boards, comprised of flat screen TVs, allowed for more graphics, increased customer awareness, and increased customer entertainment (Anonymous). However, after a limited roll out in Japan and select cities in the United States, McDonald’s decided to not to implement these nationwide and discontinued operation of them in the test areas.

The customer also must be thought of when new technology is tested. McDonald's had previously tested a fingerprint-based payment system in which a customer would give all their information to McDonald's ahead of time, and they would use their fingerprint to pay instead of the actual credit card (Gallagher). Customers held some fears about giving their fingerprint to McDonald's and the system failed.

McDonald's will continue to put great investments in testing new technology, which can give them a competitive advantage. McDonald's is currently testing new technologies that may be implemented worldwide. They are testing a mobile point-of-sale tool, which will allow customers with young children to order from the play area and pick up their food without waiting in line (Anonymous). They are also testing a customer order center, in which drive-thru orders would be taken remotely by employees at a centralized call center (Anonymous). The data would then be transmitted to the actual restaurant and the food would be prepared.

Natural Resources

Recently, consumers have become increasingly aware of the impacts that large corporations possess on the environment, thanks in part to the widespread accessibility of public media. This newfound awareness has obligated businesses to be held accountable for their actions and, in the very least, has forced a reactive approach towards allocating and saving natural resources. McDonald's, unlike most, implemented diverse initiatives well before the media hype brought about change. They have been commended for their proactive approach towards achieving environmental sustainability. The effects of these changes are visible along all aspects of the supply chain, ranging from the beef purchasing decisions from suppliers to the type of lighting used in each restaurant. As a leader in the food industry, McDonald's has the unique opportunity to pressure conformity from other competitors and to set the bar on these issues.

McDonald's recognizes that sustainability requires a cross functional approach, spanning across the supply chain to be as effective as possible. Recently, the company's suppliers have received increased pressure to act and conduct business in accordance with McDonald's enhanced policies if they want to continue to enjoy the benefits of dealing with the Fortune 500 Company. As an effort to support these policies, McDonalds created a

sustainability award to reward the supplier that best exemplifies the McDonald's vision, principles, and values for sustainable supply. Qualifications for the award included the humane treatment of animals and implementation of programs that minimize impacts on the environment and conserve and protect natural resources (Press Release 1).

Given the massive amount of solid waste that McDonald's disposes each year, an opportunity for continual improvement exists. The model which they created to combat their solid waste output was designed to be comprehensive, incremental, and ongoing. It is comprehensive because it spans the expansive network of McDonald's 600+ suppliers. It is incremental because realistically these changes take time to become effective on all fronts. It is ongoing because the problem itself will never cease to exist. Recent initiatives such as the introduction of reusable shipping containers, packaging changes to include more recycled content, and the use of unbleached paper products are just a few of the efforts being made to reduce their impact on the environment (Prince).

With a focus on the movement to go "green", McDonald's franchises across the United States are planning environmentally friendly makeovers. The new eco conscious restaurants are being designed to earn the LEED certification from the US Green Building council. Examples of these changes include using recycled building materials, upgrading to high efficiency appliances and heating/ cooling systems, and implementing more natural lighting to save on electricity consumption (Smith). These changes save on costs and reflect the shift of green buildings for novelty marketing items to practical, efficient applications. Implementing these changes not only requires a great deal of effort but also a significant amount of up-front investment. For example, replacing a traditional energy system requires the removal of the old system, the purchase of the new, more costly system, and the installation fees associated with it. The energy savings resulting over the course of the next several years serve as a return on the investment. Though initially costly, the long term savings and the benefits of taking an ethically responsible approach to business have made these welcome changes.

McDonald's proactive approach towards preserving natural resources and reaching environmental sustainability has already yielded significant results. Their initiatives have created positive change along the wide reaches of their global franchises and supplier networks as well as amongst competitors in their industry. McDonald's has proven that when

corporations start taking responsibility for their actions and recognize their obligation towards promoting a better society, positive change can be made.

Conclusion

While McDonald's continues to satisfy customers all across the globe, efforts are continually being made to enhance all aspects of the corporation. With a new emphasis on catering to local tastes, creative talent focused on improving food and dining experience, and compliance with the green movement of the 21st century, McDonalds is changing the way it does business. The effects and opportunities relating to techno- science, globalization, and natural resources are vital to the company's operations. They must continue to closely monitor these trends if it wishes to remain the leader in the global fast food industry.

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