Finance and accounting

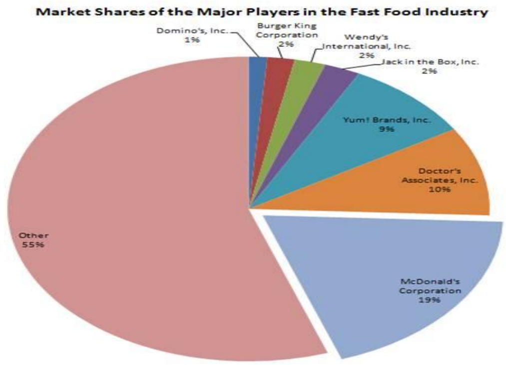
Abstract

This report intends to conduct a company analysis on McDonald Corporation. Tools such as BCG matrix has been used to assess the business position of the company. The discussion has identified that McDonald has been able to attract its customers with the help of its customised products. In addition, high return to the investors has also allowed the company to strengthen its equity financing position.

Introduction

The fast food industry is thriving for the past few years. Money is generated in this industry by selling huge quantities of food at a lower price. In this industry, the profit margin for the products is not very high, but the amount of food sold covers up for revenue that is lost. McDonald Corporation is the market leader in the fast food industry, providing mouth-watering burgers to the mass at a quite reasonable price. The figure below indicates the market share of McDonalds:

Figure 1: Market share of McDonald



(Source: McDonald Corporation, 2014)

From the above figure, it is evident that market share of McDonald is the highest among other fast food retailers. It indicates the fact that McDonald, through its operational strategies and successful business models, have drawn up sales to that extent where the company has become the market leader (McDonald's., 2013). The following essay elaborates the business model and operational strategies of McDonald.

McDonald Corporation

McDonald Corporation is regarded as the leading multinational company, which has its operation in more than 117 countries worldwide. The company, through its franchisees, have operated in highly demanding markets, where the competitors are fast enough to imitate their products. “McDonald’s competes on the basis of price, convenience, service, menu variety and product quality in a highly fragmented global restaurant industry” (Franchise Direct, 2013) – is the mission statement for the company. The company has encountered risks in the past and has still been facing some in areas of interest rates, inflation, foreign exchange rates and industry regulations.

The company has achieved competitive advantage, both nationally and internationally, in the fast food industry. The net income of the company has increased from $2.4 billion in 2007 to $5.0 billion in 2011 (Pym, 2009).

Operation

McDonald has become a manifestation of globalization worldwide and thus, sometimes, it is said that there has been "McDonaldization" of the society (Ritzer, 2004.). The company serves around 68 million customers worldwide and operate either by franchise or through own control. The revenue of the company is derived from the royalties; rent and fees paid by the franchises; and also, from sales generated by company operated restaurants. In 2012, total revenue of the company had amounted to $27.5 billion, whereas, the profit was $5.5 billion (Neutral Fuel, n.d.).

BCG Matrix

BCG matrix is important for the portfolio management of a company. The BCG Matrix of McDonald is given below:

For ensuring long-term value creation among customers, McDonald develops product portfolios, which have high growth with respect to the cash inputs. The portfolio also consists of products that consists of low growth products, but generate a lot of cash. The two dimension of BCG matrix, which is followed by McDonald, are the relative market share and market growth. Both are very essential for the company, mainly because if the product has acquired greater market share, then the company is said to be performing well in the market. McDonald has acquired about 19% of the fast food market and thus, it can be said that the company has concentrated on expanding their product range. McDonald is regarded as the “Star” in the fast food industry. The company is the market leader here and generates cash for their further operation.

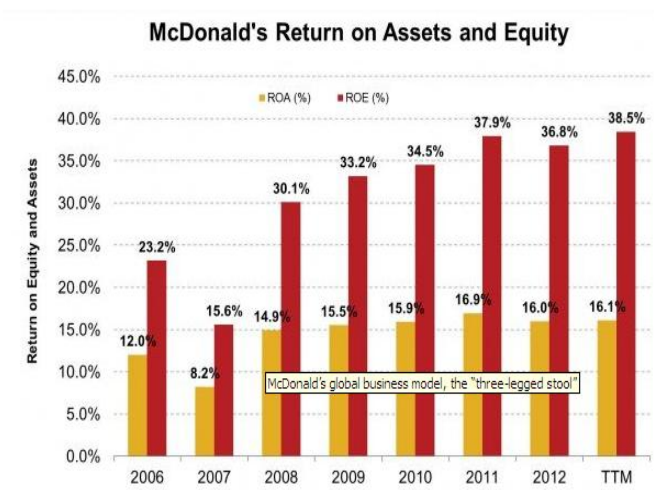
Business Model

The business model of McDonald is depicted as three-legged stool of the owner, employees and suppliers of the company. The balance between the three groups is the main interest for the company for success of its operation. The company currently employs around 1.8 million employees and owns 5,000 franchisees (Vignali, 2001). The second leg of the stool is the main concern for the company management as well as investors. The reason behind the concern can be depicted as the aggressive nature of employees in demanding for more and more wages (Nair, 2013).

The strength of the company lies in alignment of the company's franchisees, suppliers and employees. The business model permits the company to deliver their customers with an ambience of local restaurants and gives tremendous effort to form an integral part of communities that it serves. It stresses on polishing its abilities for identifying and implementing innovative ideas, which will meet the changing preferences and needs of customers. The overall performance of the company has been attractive to investors too, since the business is making huge profit for the past few years (KPMG, 2008).

The following figure elaborates the fundamental drivers of profitability and stock price of the company:

Figure 2: McDonald return on Assets and Equity



(Source: Nair, 2013)

From the figure, it can be inferred that return on equity of the company has been increasing over the years and that is profitable for investors, as they are receiving higher returns on the invested shares. The company has not only satisfied their customers with the range of products, but has also satisfied their investors by providing them with higher return values. The return on asset is stable over the years, which suggests that the company has been stable in their performance.

Threats from the rivals

McDonald has captured a larger market share worldwide and has kept their position elevated in the society by producing appropriate products for different sections of the society. However, the company has encountered competition from local restaurants and others, which provide burgers at a reasonable price. Even so, the company has not slacked down from its powerful positions, as it has emerged with new products and brought in variations in taste and texture of the same. Their response was abrupt and clear, which made customers and investors more confident regarding efficiency of the company (Kotler, 2009).

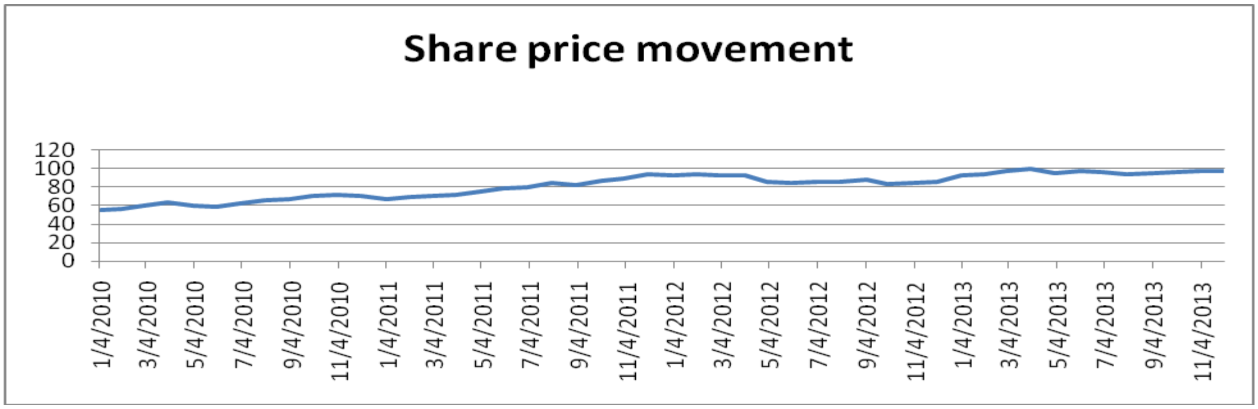
Operating strategy

The success of the company stands on the foundation of its operational strategies. These include three attributes: consistency, resiliency and innovation. From the initial days of operation, McDonald has concentrated on serving its customers with the best quality, cleanliness, service and value. Consistency is regarded as lynchpin of the franchises owned by the company. The customers have invested their trust on the company, expecting to get duly satisfied. When they take a decision to eat in McDonald, they do not hesitate to spend the required amount of money. Thus, customers have become loyal to the company products (Pink and Noblit, 2007). The efforts of the company for building this trust have been successful from the viewpoint of sales (Simon, 2013). The company has been consistent in providing their customers with the best quality fast food at reasonable price, which is affordable by all classes of people. Innovation is also another vital criterion, which is followed by the company, in order to attain success in the fast food industry. It is not required to stay consistent in providing same types of food for quite a long time, instead the company believes in innovating new products for changing the taste buds of their customers. Lastly, the company gives emphasis on resiliency. McDonald has to combat all the negativities, which are taking place in the world. It is their part of the strategy to stress on risks that the company are about to encounter in the future. Hence, the company has developed strong and efficient process that allows the business to adapt to changes taking place in the outside world and also, build confidence among customers to keep them brand loyal (Forbes.com LLC., 2013).

Interaction with Capital market

The stocks of the company are traded at less than the mean and median of the targeted value (Refer to the Figure 3). The lower share price of the company is $73.00, while the mean value is $85.56. The close price of share for 2013 was $ 80.

Figure 3: Share price of McDonald



(Source: Author's creation)

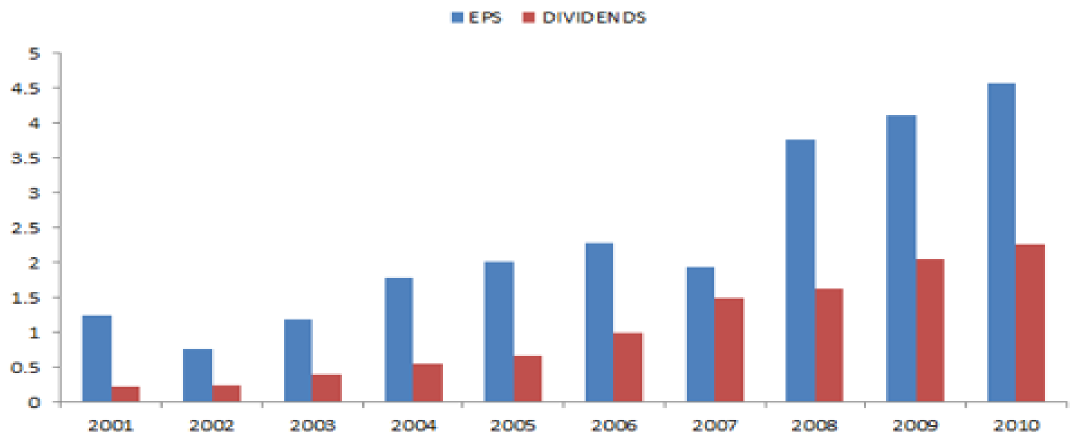
From the above diagram, it is evident that share price of the company has been stable around $ 80 and $ 90, after 2010. The fluctuations are due to several external factors, like, economies of scale, sales and governmental policies (Putilina, 2010).

Figure 4: Market capitalization (2010 - 2014)

(Source: YCharts, 2014)

From the above figure, it is evident that the company has been increasing the number of issued shares, over the years. So, the market capitalization is rising, which indicates that investors are interested in investing in their company shares. In February 2014, the market capitalization reached 95.3 billion i.e. 95.3 billion company shares were purchased by the investors (Pastor and Stambaugh, 2003).

Figure 5: EPS and Dividend payment of McDonald



(Source: Nair, 2013)

From the above diagram, it can be inferred that the company has increased the value of dividend payment, over the years, from 2001 to 2010. This denotes the fact the company is earning increased profit, which supports them to improve the dividend payment (Satchell and Knight, 2001). The earnings per share by investors have also risen over the years, which state that the company is successful in providing their investors with better return.

Interaction with the product market

The company is also sensitive to the strength of dollar. The company in based in United States, but 60% of the trade is done overseas. Thus, if strength of the foreign currencies is higher than that of the dollar, then products sold in the foreign markets will earn more dollars for the company, thereby boosting the earnings (Ritzer and Atalay, 2010).

The company has collected their earnings from royalties, rent as well as franchises. The main part of the revenue is collected from the corporation itself. The franchises sell their products and pushed up the earnings of the company to such an extent that it has increased the earning per share for investors.

Figure 6: Revenue

View: **Annual Data** | Quarterly Data — All numbers in thousands

Period Ending	Dec 31, 2012	Dec 31, 2011	Dec 31, 2010
Total Revenue	**27,567,000**	**27,006,000**	**24,074,600**
Cost of Revenue	16,750,700	16,319,400	14,437,300
Gross Profit	**10,816,300**	**10,686,600**	**9,637,300**

(Source: Yahoo Inc.!, 2014)

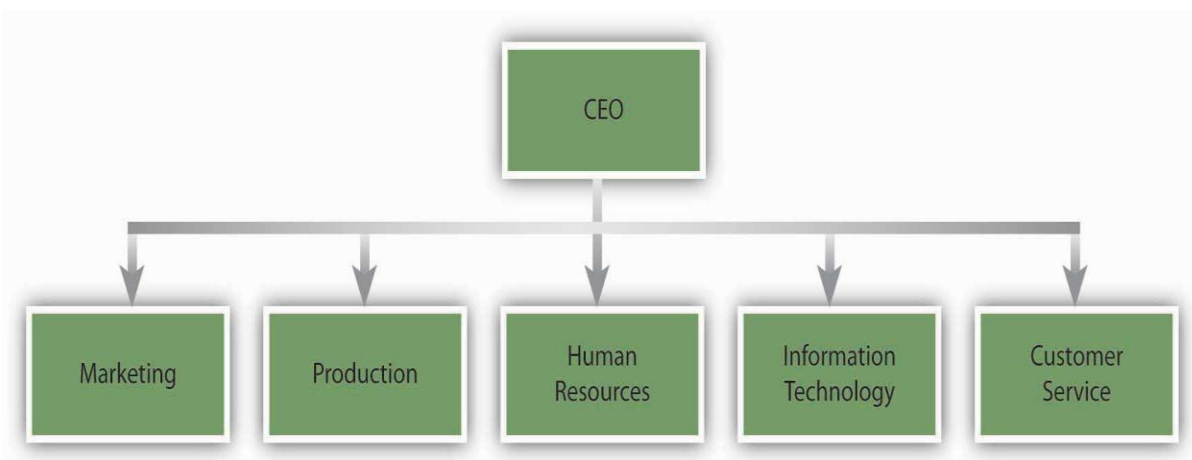
From the above diagram, it can be concluded that the company has increased the amount of revenue, over the years, by providing customers with new range of products at reasonable prices.

Organisational structure

The organisational structure of McDonald is multi-level, headed by the CEO and then the board of directors. The board comprises 13 members and 11 of them are directors of the same. The directors govern the departments that are broken down into marketing, human resources, corporate affairs, regional managers, national operations, finance and strategic planning (McDonalds', 2014).

The following diagram explains the organisational structure at McDonald:

Figure 7: Organisational structure of McDonald



(Source: Nair, 2013)

The departments are further handled by line managers, who work under the direct command of departmental managers. The line managers work in harmony with employees, who are responsible for the main activities of the company. The structure is successful enough to create a versatile company in the dynamic world. Therefore, no modifications are needed by the company, since the organisational structure has been successful in drawing enough cash from customers. The marketing and sales department of the company play a vital role in success of the same. New product launches and marketing of those products are essential for experiencing increase in demand of the company.

Reduce Cost and improve quality

The earnings of McDonald are sensitive to commodity prices of corn, beef, cheese and poultry. The commodity price is rising, since 2005, but McDonald has not increased their product price because of the demand for their products among customers. Thus, rise in the commodity prices has affected the profit margin of the company. However, it concentrates on not increasing the product prices, since their profits are checked by increasing demand of their products. The company aims at reducing their cost and improving the quality of products; so that customers are satisfied.

Conclusion

It can be concluded that the company has become successful in the industry by providing customers with best quality fast food at a reasonable price. The company has developed range of products that have helped them to satisfy changes in taste and preferences of their customers. The organisational structure is appropriate for forming a successful company. The investors of the company are highly satisfied with the amount of return that they are receiving from the shares invested.

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