

From Business Model and Marketing Analyze the Success and Future Development of McDonald's

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Abstract. In this era of rapid development, McDonald's, one of the most successful companies in the world, has a very important position in the catering market. But at the same time, McDonald's is also facing many development challenges. Some studies of McDonald's have explored only one aspect of it and have not comprehensively analyzed its business model as well as product marketing. Therefore, in this paper, the author analyzed how McDonald's has succeeded and responded positively to the economic recession with the help of its unique business model, as well as the current status of the McDonald's brand in the Chinese market today, from a comprehensive perspective. The author applies the 4Ps model for a comprehensive analysis and also puts forward suggestions for McDonald's future development at the end of the paper. It is concluded that although McDonald's relied on the company's unique business model in the early years of the brand and coped well with the recession, McDonald's needs to focus on the quality of its products and services if it wants to continue to expand its market in China and attract a wider customer base.

Keywords: McDonald's; business model; recession; 4Ps analysis.

1. Introduction

1.1. Background

As the economy develops and the pace of life becomes faster and faster, it is becoming more and more common for people to eat out. Fast food, as a very important part of the restaurant industry, has the advantages of convenient, cheap and time-saving. Many people choose fast food as the best choice for daily meals. McDonald's, as a leading brand in the global fast-food industry, has its own unique business model and marketing model.

McDonald's is a globally recognized fast food chain brand, which founded in 1955 in Chicago, USA. It has more than 32,000 restaurants worldwide, covering more than 120 countries and regions. It mainly sells hamburgers, as well as fries, fried chicken, sodas, ice, and other fast food. At present, McDonald's has become the most valuable brand in the global restaurant industry.

1.2. Research Content and Methods

In this paper, the author will analyze how McDonald's has become the dominant brand in the global fast-food industry. In terms of brand value, McDonald's ranked 10th in the Top 500 World Brands of 2018. The secret of McDonald's success is that it has an underlying business logic and sound business system that is different from other restaurant brands. The author will use the 4Ps analysis methods to conduct a comprehensive analysis of McDonald's business model and summarize McDonald's corporate response to the recession. At the end of the paper, the author will make recommendations for McDonald's development. The results of this research are not only useful for the subsequent development of McDonald's but also for the growth of other enterprises that are not limited to the restaurant industry.

The research methodology of this paper is literature analysis. Data and literature from academic websites and official annual reports published by McDonald's and some other brands.

In such a competitive restaurant industry, the secrets of McDonald's managed to stay ahead of its rivals are its unique business model and its apparent immunity to recessions.

2. Business Model

2.1. Franchising

Of the 40,031 McDonald's restaurants at the end of 2021, 37,295 or 93% were franchised restaurants [1]. In 2022, McDonald's achieved its long-term goal of franchising 95% of its restaurants worldwide. Franchisees pay royalties to the franchisor for the use of its brand, processes, and products. The franchisor supports the franchisee's activities and provides a range of services in turn. At the same time, franchisees need to pay McDonald's land rent. This is the unique business logic of McDonald's. The Franchise Business Division, which chooses franchisees and assists them in getting up and running; and the Real Estate Development Division, which creates restaurant sites, are the two distinct operating divisions that McDonald's has established. The most important research project of the core team of McDonald's is the location. In addition to the regular examination of customer flow, the most important concern is the potential of land appreciation and urban development planning. After McDonald's has identified a site, it will establish a McDonald's Business Circle through brand awareness. Through the McDonald's Business Circle, it will continue to attract a large number of people to the location, thus causing the price of the land to skyrocket [2]. The business model used by McDonald's has been refined over time and has shown to be successful and efficient, lowering the risk for franchisees. McDonald's has facilitated franchisees' access to funding by implementing initiatives that encourage collaboration with lenders. Furthermore, banks are more inclined to lend to prospective McDonald's franchisees due to the prior investors' good track record. [3]. Real estate is included as one of the primary assets of McDonald's financial records. As the area becomes more urbanized, McDonald's land will inevitably rise in value. McDonald's can lease its fixed assets to make efficient use of them. On account of the constant appreciation of fixed assets, land rents are also rising. As a result, in each year's financial report, rent accounts for an increasing proportion of profits [2]. Real estate ownership provides McDonald's with an additional source of constant income, which is an important aspect that makes it was little affected by the recession.

McDonald's expands its market rapidly around the world through franchising. However, in some communist countries like China, things would be different. Because all land in communist countries is held by the state and companies may only get usage rights for a limited time, McDonald's real estate ownership model is ineffective. This restriction made it difficult for McDonald's to own land to maintain its business model of franchising and real estate. So, McDonald's turned to rent properties instead of owning the lands. This method reduces upfront costs and financial risks associated with property ownership. McDonald's is also actively working with local partners and discussing the direction of the real estate market so that McDonald's can position prime marketing areas precisely. Thus, McDonald's is truly the "world's largest real estate company". Thanks to this, McDonald's has been able to make a sustainable profit in the face to the recession.

2.2. Standardization

McDonald's strictly adheres to the standardized process. Make the supply of raw materials, equipment selection, and other aspects consistent. In this way, customers can enjoy a similar dining experience around the world. At the same time, economies of scale allow McDonald's to reduce costs and maintain consistent quality. Rather than keeping the profits on these products for themselves, McDonald's distributes them to franchisees at cost plus delivery. In this way, McDonald's attracts more people to join. However, McDonald's requires suppliers to use specific equipment and even feed, in which McDonald's can earn back the profit on its products through a premium price while maintaining consistent quality.

Due to the standardization, McDonald's also has an interesting index called the Big Mac index, which is a popular and easy-to-understand representation of the value of money in different countries. By comparing the price of a McDonald's Big Mac hamburger in different countries, people can recognize if the value of this country's money is worth more or less than others [4]. For example, a Big Mac hamburger sells for 25 RMB in China and 5.5 dollars in the US. Although this index cannot

accurately reflect exchange rates between currencies. However, the Big Mac index has become a popular and interesting way of comparing monetary values across the globe. It also reflects the standardized way McDonald's operates globally.

3. Face to Recession

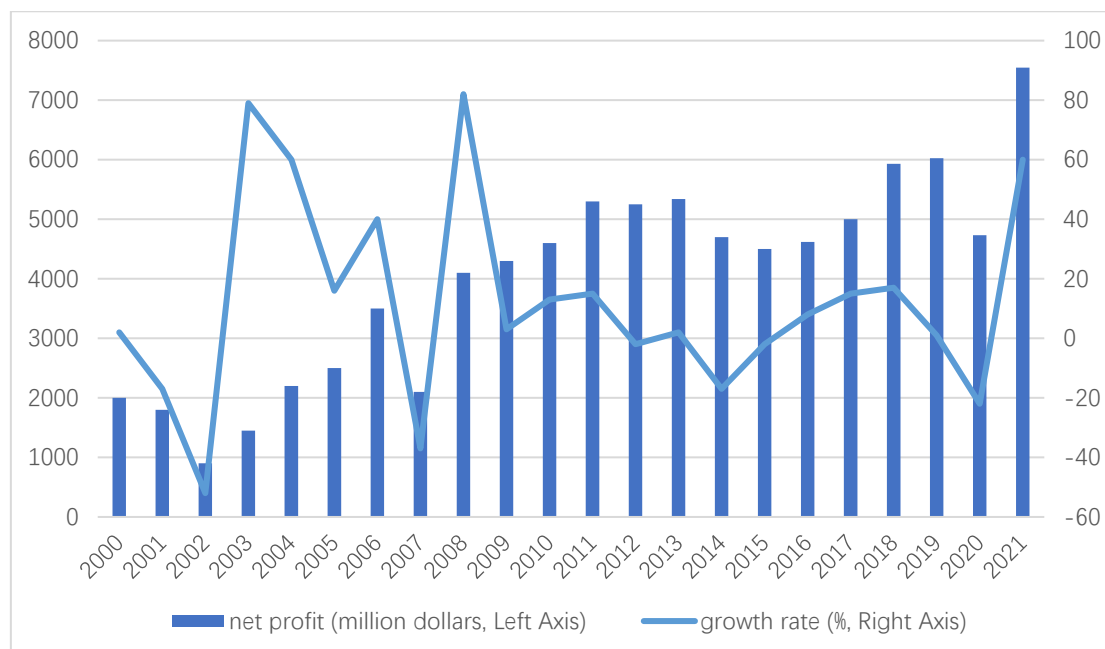


Fig. 1 McDonald's net profit and growth rate (2000-2021) [5]

As shown in Figure 1, on the whole, McDonald's net profit is on an upward trend. It is of great concern that not only is the net profit margin much higher than that of peer companies during recessions and epidemics, but the growth rate is also significantly higher at 60-80 percent. Initially, fast-food restaurants have historically performed very well during recessions. When money is tight, people tend to choose fast-food restaurants like McDonald's to cut back on expenses. In particular, McDonald's was offering one-dollar and other wallet-friendly options on its menu. It was strongly attracted the customers who were temporarily strapped for cash. Since McDonald's has located in over 100 countries, its global presence helped to cushion the impact of the recessions. In terms of the global market, McDonald's has been on the rise state. This is a good indication that McDonald's is focusing on the global market as a whole. Last but not least is its adaptability and innovation. McDonald's has always been innovative, making improvements to their menu, stores, and marketing efforts. For example, it expanded its breakfast and coffee offerings through McCafé, attracting a new segment of customers.

The author also wants to analyze how McDonald's managed to be consistently profitable in 2021, the worst year of the COVID-19 and economic recession. In 2021, McDonald's global comparable sales increased 17.0% [1]. McDonald's not only continuously innovates in its marketing methods, but also adjusts its business philosophy and strategy according to the situation of society, and rapidly applies these adjustments to its stores around the world. In late 2020, the company announced the Accelerating the Arches growth strategy (the "Strategy"). The Strategy integrates all aspects of McDonald's business and presents growth pillars based on the company's competitive advantages. The company's values reflect the internal image of the company and are the basis for its success in times of crisis.

3.1. Maximize Their Marketing

McDonald's filled and expanded its market by providing more diversified methods to enable customers to order McDonald's food in different ways, such as their Famous Orders platform,

especially during such special times when the government issued restrictions on restaurant hours and the ability of customers to dine in. It is important to implement the guidelines of value, as McDonald's brand continues to be built around price.

3.2. Commit to the Core

Although the majority of McDonald's revenue comes from franchising and real estate income. However, providing customers with high-quality food and a customer-centered service philosophy is what makes McDonald's always attractive to customers. This leads to McDonald's Business Circle becoming hotter and further increase in land prices. So that forms a virtuous circle. The company commits to the core by tapping into customer demand and analyzing customer preferences, the company continues to extend its product line and localizes product launches in some regions. Coffee has also become a product that McDonald's is committed to marketing, and markets are leveraging the McCafé brand, experience, value, and quality to drive long-term growth.

3.3. Double down on the 3D's: Digital, Delivery and Drive Thru

The company strengthens the customer experience through the development of a potent digital experience growth engine and the utilization of competitive advantages. In order to facilitate future expansion, the company was keeping up its pace of technological innovation, guaranteeing that consumers will always have a quick and simple experience that satisfies their demands, regardless of how they want to connect with McDonald's. Notably, approximately \$18 billion, or more than 25% of Systemwide revenue in their top six regions, was generated by digital channels in 2021 (which include the mobile app, delivery, and kiosk).

3.3.1. Digital

The company's "My McDonald's" digital experience growth engine is revolutionizing its drive-through, takeout, delivery, curbside pick-up, and dine-in options with digital advancements. Customers may order using the mobile app, join a loyalty program, get customized specials, and receive McDonald's meals through the preferred channel by using digital technologies.

3.3.2. Delivery

Over 33,000 McDonald's restaurants now provide delivery services, making up over 80% of all McDonald's locations. In recent years, delivery revenues have also expanded significantly. Building on this success, the firm is aiming to enhance the delivery experience for customers by allowing them to make orders via the McDonald's app and optimizing procedures with a focus on precision and quickness. In 2021, the company formed long-term strategic collaborations with two of its top worldwide delivery suppliers, UberEats and DoorDash, which are intended to benefit both consumers and franchisees.

3.3.3. Drive Thru

The company has over 25,000 restaurants equipped with drive thru around the world, including nearly 95% of more than 13,000 locations in the U.S. This approach makes it easier and faster for people to pick up and eat their meals.

Accelerate the Arches Strategy based on putting customers at the heart of all they do and maintaining an unwavering commitment to operating excellent restaurants.

3.4. Safety+ Framework Face to the COVID-19

McDonald's has always placed a high priority on ensuring the health and well-being of its employees and customers. The Company launched the Safety+ framework in early 2020 in response to the global COVID-19 epidemic. The goal of the framework is to provide a safe and supportive work environment for restaurant staff while giving consumers many contactless ordering and payment options. In 2021, the Company has remained vigilant in addressing emerging safety hazards by taking appropriate preventive measures and making well-informed judgments. It has benefited

from advice from the World Health Organization and competent health authorities in the majority of the countries where it works.

4. 4Ps Analysis

4.1. Product

4.1.1. Quality

McDonald's has always placed a high value on the quality of its goods, throwing out hamburgers after 10 minutes and French fries after 7 minutes without hesitation. Not because the food is spoiled or unfit for consumption, but rather because McDonald's is dedicated to providing its customers with the freshest, highest-quality, and cleanest tasting meals possible [6].

4.1.2. Localization

McDonald's not only has a globally uniform food menu but also makes some menu adjustments and new products launched by McDonald's according to the taste of the customers in each region as well as the local culture. This helps McDonald's to adapt to the local market and attract a wider range of customers.

4.1.3. Replacement

There is a risk from substitutes when the cost of a replacement product fluctuates and influences the demand for a product. The availability of substitutes affects a product's price elasticity; as more choices become available to consumers, demand for the product rises. Businesses in an industry are limited in their power to raise prices by a near-replacement product [7]. Takeout can be delivered directly to customer's home or workplace, cutting out the time spent visiting the store and the waiting time. There will be more other options on the takeaway platform, but the food quality and safety may not be as good as McDonald's. But they are much cheaper with lower ingredient costs and without the expense of running a store. A lot of less well-funded people will turn to choose these brands. Since people rarely have the time to go through the full process of cooking a meal, a lot of semi-finished products have appeared in supermarkets, which can be eaten at home with very little time spent on cooking or deep-frying. The advantages of such products are that they are cheaper than eating out; the preparation relatively eliminates many steps from the raw materials, and the resulting flavor is more delicious.

4.2. Price

McDonald's as a fast-food restaurant, its price of product is always economical and attracts customers. McDonald's food pricing is generally not too high, but it will not be cheap and sacrifice quality; on the contrary, it uses economies of scale to reduce costs, while adding value for customers [8]. This is not only very friendly to customers, but also giving profits to franchisees making it easier for them to control the costs of raw materials.

The standardization of McDonald's products has led to the price of the Big Mac hamburger which the author mentioned above once being used by The Economist magazine in the U.S. to measure the cost of living in major commercial cities around the world. But in an effort to appeal more widely to customers, McDonald's has launched the 1+1 free matching with customers' heart package for only 13.9 RMB. McDonald's puts the recommendation of these very cost-effective products or packages in the most prominent place and even markets them together with newly launched products. This is to earn more attention.

To be honest, McDonald's general product isn't exactly cheap in the fast-food space. It's hard to fill up with a 1+1 package. A Western fast-food restaurant like McDonald's usually costs around 30-40 RMB per person, which is enough for two people to have a full meal in a Chinese fast-food restaurant. Due to McDonald's global standardization, it can only introduce some activities and set

meals to reduce the price. So, price is not a strong factor for McDonald's success in the Chinese fast-food industry.

4.3. Place

Table 1. The total number and proportion of McDonald's outlets in the three regions' provincial capitals [9]

	Eastern	Central	Western	Total
No. in capitals	350	145	62	557
Total No.	958	236	75	1269
Percentage (%)	36.53	61.44	82.67	43.89

McDonald's stores in China are not very densely distributed and are very unevenly distributed in cities of different economic levels. As shown in Table 1, McDonald's has not been able to fully penetrate the market in western China as well as third- and fourth-tier cities. Most of its outlets are concentrated in first- and second-tier cities in the east, and it has almost no outlets in cities below the provincial capitals in western China. However, McDonald's will soon further expand its store distribution due to the great brand awareness and the company's franchise model that continuously adjusts to suit the situation in China. At the same time, McDonald's does not only deliver its products to customers by selling them in stores, it also sells them by take-out, drive-thru, and many other ways. So, McDonald's still has a very wide reach in China.

McDonald's often uses a follow-through strategy in selecting the location of its stores, appearing in the same location as other fast-food restaurants, usually in larger shopping areas [10]. While this follow-through strategy saves a great deal of time and costs in selecting a location, the close proximity of several brands in the same location means that the company needs to continually innovate its products and do activities to promote products in order to attract more customers who are in a state of choice to choose McDonald's.

Franchise and real estate revenues have consistently accounted for about 80 percent of McDonald's total revenues. Due to relevant laws and regulations, McDonald's is unable to hold land and lease it to franchisees. This makes it difficult for the company to realize a large portion of its revenue. So, McDonald's model in China can only take the form of a joint venture. At the same time, thanks to China's large population, the formation of business circles will be relatively easy, so McDonald's has become more careful in the choice of franchisees and the place of the store. This is to maintain income in this portion and to look for new opportunities.

4.4. Promotion

McDonald's spends 5% to 6% of its sales each year on advertising promotions for its stores around the world. That's usually twice as much as its competitors put into their advertising portions.

McDonald's has its own brand symbols, the most famous are the Golden Arches and Ronald McDonald, which have become objects of desire and love for children. According to incomplete statistics, Ronald McDonald's image popularity in the world ranked second only to Santa Claus [11]. Not only that, McDonald's unique "Q, S, C + V" service philosophy is widely known. The company has done a lot of publicity using advertisements, internet videos, and many other ways. It has established a positive and excellent brand image among customers. In terms of the content of the advertisements, McDonald's advertisements usually target children. In most stores, there are areas for children to play. More than that, McDonald's also offers a number of fun children's packages that include children's favorite toys in them. This makes children more likely to come to McDonald's to eat and naturally bring their parents to the restaurants.

5. Suggestion

5.1. Regular Price Reductions

Since McDonald's prices are relatively high compared to other fast-food brands, lowering prices is not conducive to McDonald's globally standardized brand concept. The company can only rely on holding more events or issuing coupons to attract customers. McDonald's could follow KFC's lead and create a regular event like Crazy Thursday. Just recently, February 29, 2024, fell on a Thursday. As people all know, February 29th only comes around every four years, so the next Crazy Thursday on February 29th won't be until 2052, 28 years from now! That's why people rush to KFC instead of McDonald's on this day. In fact, on a normal Thursday, KFC also gets significantly more traffic. This shows that regular price reduction events will make the Product Choice and Purchase part of "the consumer decision journey" easy.

5.2. Customer Retention

Threats not only involve other fast-food brand competition, but also the semi-finished products sold in supermarkets have also become a quick and cheap way for people to eat. McDonald's can sell semi-finished products of its products in the store and reduce the price accordingly. Due to its brand recognition and the company's global standardization to ensure the freshness and safety of ingredients, this attracts more customers who are in need. At the same time, the company also needs to retain the number of customers who visit the store. Product quality management should be put in the first place, as well as adhering to the business philosophy, "Q, S, C+V".

5.3. Market Expansion

McDonald's can appropriately lower the joining requirements for some franchisees to expand its market in China more rapidly. And it can introduce local specialty packages in different areas according to the eating habits of local customers. Of course, this reliance on the head office to research and development innovation is obviously unrealistic, the company can give this product innovation work to the agents in different areas to do.

6. Conclusion

This study conducted brand research on McDonald's in terms of its business model and how it faced to the recession. The authors also applied the 4Ps business research model and concluded that McDonald's though has a franchised business model and a globally standardized business philosophy which has quickly made it one of the most successful restaurant brands in the world. However, its performance in the Chinese market is slightly lacking. If it wants to better capture this market, McDonald's needs to pay more attention to product innovation and various promotional activities. And the company should try to sink into the market to reach a wider consumer base. The author gives a clear analysis of whether McDonald's is the "world's largest real estate company" or a product-based success. McDonald's initial capitalization and rapid global expansion were based on its unique franchise model, but the company's subsequent growth and interaction with competitors and substitutes were more dependent on its product innovation and price promotions. The results of this research can be used by some companies to learn how to become a successful brand and how to plan their company and products wisely. This paper is a comprehensive study of McDonald's and does not focus on any one aspect, but rather explores how the brand has succeeded and recommendations for the future of the company. Future research could analyze an aspect of McDonald's in-depth through primary collection of data.

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