***Teaching Note:* Case 3 – McDonald’s**

# Case Objectives

1. To investigate the key external environmental issues that can affect a firm’s strategy.
2. To examine how a reevaluation of strategy involves assessment of internal activities and resources.

See the table below to determine where to use this case:

NOTE: There are both PRIMARY and Secondary chapters that can be used for this case. The Teaching Note gives guidance for the PRIMARY use chapters, and provides suggestions if the instructor wants to use the case to illustrate concepts from the optional Secondary chapters.

|  |  |  |
| --- | --- | --- |
| **Chapter Use** | **Key Concepts** | **Additional Readings or Exercises** |
|  |  |  |
| PRIMARY CONCEPTS  2: External Environment | External environmental forces; Porter’s five forces model | Visit investor commentary on MCD, see **VIDEO** links re customer response; read about healthy foods controversy, watch **video** re SuperSize Me, FastFoodNation |
| 3: Internal Analysis | Value chain; tangible vs. intangible resources; VRIN analysis | See **VIDEO** links re value chain challenges |
| 5: Business-Level Strategy | Generic strategies |  |
| SECONDARY CONCEPTS  1: Strategy Concept | Strategic management; vision, mission, strategic objectives | Visit McDonald’s website to evaluate its mission. See an embedded **video** of a 1967 McDonald’s TV commercial. |
| 4: Intellectual Assets | Human capital; intellectual capital |  |
| 6: Corporate-Level Strategy | Corporate strategy; diversification; synergy; acquisition |  |
| 7: International Strategy | International expansion |  |

# Case Synopsis

McDonald’s had announced on January 28, 2015, that Don Thompson would retire as president and chief executive at the end of February. He would be replaced by Steve Easterbrook, the firm’s chief branding officer. The abrupt exit came after the world’s largest restaurant chain posted one of its worst financial performances in years.

This was frustrating to many analysts, because McDonald’s had managed to show consistent growth in performance up to 2013, riding a surge in operating profits and stock price for almost a decade. Most of this could be attributed to the “Plan to Win,” which was first outlined by James R. Cantalupo, who had come out of retirement to guide McDonald’s after overexpansion had caused the chain to lose focus. The core of the plan was to increase sales at existing locations by improving the menu, refurbishing the outlets, and extending hours.

In spite of management changes, McDonald’s had remained committed to pushing on various aspects of this plan. The chain had continued to expand its menu over the years, with more sandwiches and salads. It also started to add snacks and drinks, two of the few areas where restaurant sales had still been growing in spite of the economic downturn. Its addition of specialty coffee, ice-cold frappes, and fruit smoothies in its newly added McCafes had helped boost the average spent by each customer and lured customers to its outlets for snacks during slower parts of the day.

Nevertheless, McDonald’s was aware that it was facing a rapidly fragmenting market, where consumers were looking for healthier and even more exotic foods. The chain was facing tougher competition from Burger King and Wendy’s, both of which had been adding to their menus and remodeling their outlets. McDonald’s had also lost ground with Millennials who were increasingly drawn to new designer burger outlets such as Five Guys and Shake Shack. At the same time, McDonald’s was also losing customers to fast-casual chains, such as Chipotle Mexican Grill and Panera Bread, which offered customized ordering and fresh ingredients. Many analysts therefore believed that the chain had to continue to work on its turnaround strategy in order to meet these challenges.

The prevailing belief was that when restaurants started to slide, it really took a lot to turn them around. Would McDonald’s be the exception? With the recent addition of the McCafe coffee line, fruit-based smoothies, and healthier offerings across the menu, McDonald’s was stretching its brand beyond its traditional money making burgers and fries. Would this allow McDonald’s to successfully compete against all of its rivals, since, especially in America, people just love their burgers?

# Teaching Plan

This is a case that is well suited for a full investigation of strategic analysis and formulation. Especially since most students are well aware of McDonald’s strategic challenges, the case can be placed in the course at the point where the instructor is ready to lead into a discussion of strategy formulation. By building a sound foundation in external and internal environmental analysis, a discussion of McDonald’s can provide an intro for the challenges of competition in a changing environment. As such, this case is best positioned mid-way through the course, after students have had an introduction to the concepts of strategy analysis and formulation.

Regarding a competitive strategy, McDonald’s has now moved into the drinks segment (with McCafe coffee and smoothies), which pits it against the likes of Starbucks and Jamba Juice. The instructor might want to assign the Jamba Juice case as well to provide another view of this part of the industry.

# ICEBREAKER

This case can start with an ***icebreaker****.* Starting from the perspective of a customer may make it easier for students to transition to a strategic analysis.

*Have you ever eaten at McDonalds? Over the last few years, have you seen any changes in either the menu or the restaurant décor? What do you think of these changes?*

It is safe to say that McDonald’s is an American icon. Chances are that almost every student has visited McDonald’s at least once. A good way to start the discussion of this case is to ask students about their experiences with McDonald’s. Those who had visited McDonald’s as little kids could share their experience about what McDonald’s meant to them as kids and how their perception of the restaurant changed as they grew older. This may lead to a discussion of the quality of food and service, and how this compares with choices at other places.

The instructor may want to put a chart on the board: what students *Like*, what they *Don’t Like* about McDonald’s and then what they think McDonald’s should *Do Differently*. There may be some disagreements about the likes and dislikes: some people really like the taste of the fries, while others dislike the unhealthy nature of the food; some people like the “fast-food” part – preferring the drive-in – while others prefer to be able to sit down and share food with their friends. If there are international students in the class, it’s also fun to have them share both the décor/service and menu differences between international and U.S. McDonald’s restaurants. These differences could also be put on the board. If there is diversity among responses, it may make it easier for the instructor to then ask: so if you were McDonald’s CEO, how would you respond to these diverse opinions from your customers? What strategic issues do you need to consider? This flows straight into a discussion of mission and the external environment.

Before engaging in discussion, you might want to test student’s basic knowledge regarding the case and the major concepts. Here are some multiple-choice questions to use. (This will get the student’s attention – they can’t answer these if they haven’t read the case!)

Which of these statements is the truest?

1. Millennials are defecting from McDonald’s to traditional competitors like Burger King and Wendy’s.
2. McDonalds’s dollar menu has worked well.
3. McDonald’s doesn’t have to worry about restaurants like Panera Bread, since these kinds of fast-casual dining destinations don’t draw the same customers as McDonald’s does.
4. Because of its bulk purchasing agreements, McDonald’s never has to worry about running out of French fries.

ANSWER: a

Changing tastes has customers, especially millennials, more likely to go to new designer burger outlets such as Five Guys and Shake Shack, and even traditional competitors such as Burger King and Wendy’s. McDonald’s tweaked its “dollar menu,” replacing it with “dollar value and more” and raising the prices of many items as part of a bid to get each customer to spend more. Over the previous five years, about 15 percent of the chain’s sales had come from its dollar menu, on which everything cost a dollar. Changing tastes were responsible for the loss of customers who were lining up at fast-casual chains such as Panera Bread, which offered customized ordering and fresh ingredients. McDonald’s had to face shortages of French fries in several markets because of a slowdown at the port in Los Angeles.

In recent years, the only fast-food burger chain with consistent growth has been Wendy’s.

1. Yes
2. No

ANSWER: b See Exhibit 4. Five Guys is the only fast-food burger chain to have seen consistent growth since 2010.

# Summary of Discussion Questions

Here is a list of the suggested discussion questions. You can decide which questions to assign, and also which additional readings or exercises to include to augment each discussion. Refer back to the Case Objectives Table to identify any additional readings and/or exercises so they can be assigned in advance.

**Discussion Questions:**

1. What are the current forces in the external environment that might affect McDonald’s strategy?
2. What source of competitive advantage does McDonald’s have, and is that position supported by its value chain and other internal resources?
3. OPTIONAL QUESTION: What other strategies could McDonald’s formulate to achieve a competitive advantage?

# Discussion Questions and Responses

1. ***What are the current forces in the external environment that might affect McDonald’s strategy?***

**Referencing Chapter 2: Analyzing the External Environment**

Organizational leaders must become aware of factors in the overall environment that might affect their ability to create a competitive advantage. So how do managers become environmentally aware? By doing scanning, monitoring, and gathering competitive intelligence, and using these inputs to develop forecasts. This prepares the firm to do more extensive analysis of the forces in the general environment and the industry or competitive environment.

Environmental scanning involves surveillance of a firm’s external environment to predict environmental changes and detect changes already under way. It is a BIG PICTURE viewpoint of the industry/competition, looking for key indicators of emerging trends – What catches your eye? This alerts the firm to critical trends before changes have developed a discernible pattern and before competitors recognize them. Environmental monitoring is a firm’s analysis of the external environment that tracks the evolution of environmental trends, sequences of events, or streams of activities. Leaders need to monitor the trends that have the potential to change the competitive landscape – What do you want to track? Firms need to CHOOSE the trends identified via the scanning activity, and regularly monitor or track these specific trends to evaluate the impact of these trends on their strategy process.

What factors or trends might be most important to McDonald’s? To assess how the*external environment*might affect McDonald’s strategy, it’s necessary to take a look at the factors in the *general external environment*. McDonald’s must consider the political/legal, economic and global, sociocultural and demographic, and technological forces that might affect the ability of the firm to deliver its services and sustain its business. See which factors in the ***general environment*** students might pick that have a significant impact on the fast food industry. Students might respond as follows:

***Demographic*** - customers are now working around the clock, expecting 24-hour access to fast food. How to please the range of customers from kids to contractors?

***Sociocultural*** - customers preferences have changed to more exotic foods, healthier food with better taste, attention paid to sustainable solutions for the food chain, i.e. cage-free eggs. However the growth in fast-food burger places such as Five Guys shows that customers will ignore healthy as long as the food tastes really good – people still like a juicy, good tasting hamburger.

***Economic*** – the current economic downturn means customers might be trading down to McDonald’s if they want to eat out. However, this means that the fast-food meals must be perceived as worth the prices paid, meaning costs still need to be low enough to charge comparably low prices.

***Global*** - boundaries are disappearing, travelers are more open to global consistency in food offerings - Golden Arches are accepted, and expected, everywhere. Geography does matter – given that people will be seeking out inexpensive yet good food, it doesn’t matter the brand. Whichever burger chain is closest will get the business.

To answer the question about the *current forces in the general and fast-food industry environments* that affect McDonald’s ongoing strategy, it’s necessary to assess the segments of the external competitive environment that include competitors, customers, and suppliers, substitutes and new entrants. Porter’s *five forces model* allows strategists to anticipate where the industry might be most vulnerable. Help students apply Porter’s Five Forces of competition by drawing a diagram on the board similar to the following and having students fill in the details. Based on the external environmental industry analysis, the fast-food business is not an attractive industry, with many competitors trying to carve out a piece of the “profit” pie.

**Rivalry**

**High**

**Substitutes**

**Threat**

**Med-High**

**Buyers’ Power**

**Med-High**

**Suppliers’ Power**

**Low**

*Suggested:* High *-* Many rivals compete in the fast- food business. Convincing customers that menu items are different or better than competitors is difficult when the food category is limited to take-out options.

*Suggested:* Med*-*High - Major power is wielded by franchisees who can drag down company reputation. End consumer has little economic power.

*Suggested:* Low *-* Suppliers of beef, eggs, potatoes have little power. Soft drink suppliers beg for partnership deals with restaurants.

*Suggested:* Med-High – Major substitute is home cooking - it’s easy to make a burger on the home grill.

*Suggested:* Med-Low threat of new entrants - establishing a restaurant chain requires significant financial and infrastructure resources.

**Threat of New Entrants**

**Med-Low**

**NOTE - ADDITIONAL EXERCISES, VIDEO VIEWING:**

One interesting way to evaluate the competitiveness in the industry is to look at comparative financial performance from the perspective of an investor. Since McDonald’s (MCD) is a publicly traded firm, take a look at <http://finance.yahoo.com/q/co?s=MCD> to see how it compares with its peers. Regarding MCD’s performance over the last nine years, see the following:

After James Cantalupo charted the “Plan to Win” strategy, some argued that McDonald’s stock was potentially a good investment: In April of 2007, McDonald’s had made some changes, and still came out on top <http://www.fool.com/investing/high-growth/2007/04/20/mcdonalds-still-going-strong.aspx?terms=mcdonalds&vstest=search_042607_linkdefault>, and then impressed based on its global sustainability strategy <http://www.fool.com/investing/general/2007/04/25/mcdonalds-making-money-making-a-difference.aspx?terms=mcdonalds&vstest=search_042607_linkdefault> and strategy for global expansion <http://www.fool.com/investing/general/2007/08/22/monsieur-mcdonald-charms-the-continent.aspx>.

In October of 2007 McDonald’s increased its focus on diversifying its menu offerings by confirming that it would compete with Starbucks for the specialty coffee market by 2008

<http://www.fool.com/investing/general/2007/10/03/mcdonalds-head-of-steam.aspx?terms=mcdonalds&vstest=search_042607_linkdefault>, and in December 2007, it had outperformed its direct competitors and looked poised to weather the forecasted economic downturn in 2008 in good shape, thanks in part to its overseas expansion plans: <http://www.fool.com/investing/general/2007/12/31/best-stock-for-2008-mcdonalds.aspx?terms=mcdonalds&vstest=search_042607_linkdefault>.

As MDC announced details of its coffee roll out in 2008, some wondered if this was the right time for such an expansion, especially because Starbucks was seeing a decline in business as more consumers brewed coffee at home, and it would cost the franchisees an average of $100,000 per location to do the needed remodeling: <http://online.wsj.com/article/SB122506692561270623.html>

Information from McDonald’s history, and interviews with its franchisees, details MCD’s turnaround strategy in this article: <http://www.nytimes.com/2009/01/11/business/11burger.html?_r=1>. Especially noteworthy was MCD’s performance outside the U.S. (See <http://www.nytimes.com/imagepages/2009/01/10/business/20090111_BURGER_GRAPHIC.html> for graphs and commentary on MCD’s international performance.) For current information on the company, see <http://topics.nytimes.com/top/news/business/companies/mcdonalds_corporation/index.html>

In 2011 analysts recommended McDonald’s as “a solid defensive stock. It's a lean, mean competitive machine, focusing entirely on its core strengths.” <http://www.fool.com/investing/general/2011/01/24/mcdonalds-gets-defensive.aspx?source=isesitlnk0000001&mrr=0.33>

And in 2013, after MCD announced disappointing quarterly results, in the wake of aggressive competition from Wendy’s and Burger King and the continued economic troubles in Europe, one analyst pointed out another “challenge for McDonald's is the growing number of chains that offer quick, better quality food at higher prices, including Chipotle, Noodles & Company, Panera Bread and others. Those chains are reshaping expectations when people go out to eat.” The question was whether Thompson, who took over in 2012, “will be able to keep McDonald's image up to date as it struggles though the tough economic climate”: <http://finance.yahoo.com/news/mcdonalds-predicts-tough-despite-items-132325729.html>

In 2015, after Easterbrook’s promotion to CEO, traffic was down in all market segments, and was trying new menu combinations to appeal to millennials. See **VIDEO** <https://www.youtube.com/watch?v=vBnS4E4KhAw>

And in 2016 news was good as MCD had its best quarter in nearly four years, by trying to appeal to millennials with, for instance, the customizable kiosk. See **VIDEO** <https://www.youtube.com/watch?v=A9ofHCPYC-A>

In 2017 Easterbrook talks about growth based on what customers want: value and speed, but has also been forced to respond to quality and cleaning up the supply chain, i.e. cage free eggs. He also notes that consumer economic confidence is what ultimately drives customer visits. See **video** <https://www.youtube.com/watch?v=xfn-D654m7s>

Based on the information provided there, and from other analysts, would you be willing to invest in McDonald’s stock today? Why or why not?

McDonald’s was criticized in some quarters for providing unhealthy food that contributes to an obesity epidemic in the United States, most notably in the documentary film “Super-Size Me” and in the book and movie *Fast Food Nation*. Watch the **video** trailers here:

Super-Size Me: <http://www.youtube.com/watch?v=I1Lkyb6SU5U> Fast Food Nation:

<http://www.youtube.com/watch?v=zc_z623Wsro> Read commentary on How McDonald’s reacted, compared to Burger King’s ad campaign: <http://www.prophet.com/blog/aakeronbrands/26-did-burger-king-panic>

See McDonald’s nutritional information from their website https://www.mcdonalds.com/ca/en-ca/about-our-food/nutrition-calculator.html What is McDonald’s core position about the role of its food in a healthy diet? Do you agree or disagree with the company’s view?

Another sociocultural trend worldwide, touched on in *Fast Food Nation*, is focused on the treatment of animals used for food. The Humane Society of the U.S. has challenged McDonald’s to get its eggs from free-range chickens rather than cage-bound layers. In Britain, the company already does this, but it has been slow to make the switch in the U.S. MCD uses upwards of 3 billion eggs a year. See the strategy here: <http://www.guardian.co.uk/business/2009/may/24/mcdonalds-us-free-range-eggs-trial>

Then in 2015 McDonald’s announced it will be transitioning, and that within 10 years all of its American and Canadian egg suppliers will be cage-free. <http://www.npr.org/sections/thesalt/2015/09/10/438934607/the-latest-scramble-in-the-egg-industry-mcdonalds-is-going-cage-free>

In 2017 this shift is underway, although not all suppliers are ready to comply. Next on the strategic agenda is sustainable beef.

1. ***What source of competitive advantage does McDonald’s have, and is that position supported by its value chain and other internal resources?***

**Referencing Chapter 5: Formulating Business-Level Strategies**

In order to achieve a sustainable competitive advantage, McDonald’s has to assess its ability to contend with other fast-food restaurants. The question of how to compete in a given business to attain competitive advantage requires an assessment of the types of *competitive strategies*, including the three *generic strategies* that are used to overcome the five forces and achieve a competitive advantage:

* Overall cost leadership
  + Low-cost-position relative to a firm’s peers
  + Manage relationships throughout the entire value chain
* Differentiation
  + Create products and/or services that are unique and valued
  + Non-price attributes for which customers will pay a premium
* Focus strategy
  + Narrow product lines, buyer segments, or targeted geographic markets
  + Attain advantages either through differentiation or cost leadership

# Ask the students which strategy they think McDonald’s should pursue, and why. Their answers may include some of the following points:

*Cost leadership* has been the traditional strategy for the fast-food industry, but McDonald’s kept costs under control in order to achieve parity with competitors. McDonald’s tried to develop a *differentiation* advantage while keeping costs at a reasonable level. Differentiation requires the creation of something that is perceived industry wide as unique and valued by customers. Differentiation is achieved by a firm configuring its value chain activities to support its position so customers are willing to pay a premium for something unique - could McDonald’s do this effectively?

**Referencing Chapter 3: Analyzing the Internal Environment**

To answer the question of whether McDonald’s differentiation strategy is adequately *supported by its value chain and other internal resources,* McDonald’s must assess the relationships between the elements in its *value chain*. Every activity should add value. Take a look at Chapter 3, Exhibit 3.1 to see the value chain activities. Here is what an assessment of this might look like for McDonald’s:

|  |  |
| --- | --- |
| Value chain activity | **How does McDonald’s create value for the “customer”? What challenges does McDonald’s have in its value chain?** |
| **Primary:** |  |
| Inbound logistics (food & supply deliveries) | Assumed adequate. |
| Operations (efficient processing of orders, quality control systems) | Strived for consistency across the chain, with differing results. Refurbishing of restaurants, change in hours may help draw customers. |
| Outbound logistics (distribution to customers) | Assumed adequate. |
| Marketing and Sales (motivated employees, innovative advertising & promotion) | Many product innovations failed, $1 menu didn’t go well with franchisees. I’m Loving It campaign was an attempt to reach all customers, and had been successful for many years. |
| Service (ability to solicit feedback & respond to customer issues) | Assumed adequate. |
| **Secondary (or support):** |  |
| Procurement (relationships with suppliers for procurement of raw materials and supplies) | Assumed adequate. |
| Technology development (state of the art equipment & software) | Adoption of expensive cooking processes failed to generate desired results. Premium salads take advantage of technology. |
| Human resource management (effective recruitment, incentive & retention mechanisms) | Lower standards for hiring, less time for training led to deterioration of service. |
| General Administration (effective planning systems to establish goals, access to operating capital, effective top mgmt communication, relationships with diverse stakeholders) | Top-down decision making, lack of involvement in changes caused franchisee complaints, especially when profits went down. Franchise training program may help. |

CEO Easterbrook realized that basic changes in McDonald’s’ value chain needed to be made to get the company back on track. Menu changes and franchisee relationships were key factors that had been addressed. His moves seem to have paid off in that McDonald’s’ financial performance improved, but fundamental issues still remained - would the customizable “kiosks” and “healthier” menu dilute the traditional brand image, confuse customers, and harm McDonald’s reputation for value and speed?

To further answer the question of how to support a competitive strategy, it’s important to consider the concept of the *resource-based view of the firm*, and the three key types of resources: tangible resources, intangible resources, and organizational capabilities. Determining whether the internal resources are valuable, rare, difficult to imitate, or difficult to substitute (*VRIN*) can help a firm sustain a competitive advantage. See Chapter 3, Exhibit 3.6. McDonald’s profile might look like this:

***Tangible Resources:***

*Financial* - McDonald’s appears to have managed its finances well, currently has adequate cash on hand.

*Physical* - has significant physical assets in the restaurants.

*Technological* - has kept up with current technology.

***Intangible Resources:***

*Organizational* - franchise model is a weakness unless strong quality controls are in place

*Human* - training of staff is critical, could be a problem.

*Innovation* - this is a current strength, but needs to be managed in the right direction - choice of innovation is key.

*Reputation* - McDonald’s brand is its most significant strength - this should be protected at all costs.

***Organizational Capabilities:*** Easterbrook’s leadership and willingness to extend Cantalupo’s and Skinner’s vision of excitement to all stakeholders may be key.

Applying the VRIN analysis, McDonald’s doesn’t appear to have any resources that are clearly valuable, rare, in-imitable, or non-substitutable. This indicates that McDonald’s may have a major challenge sustaining a competitive advantage, especially since any strategy it implements can be quickly imitated by competitors. However, McDonald’s *core capability* appears to be its operations focus on the original vision and mission. This has allowed its brand reputation to remain solid over the years.

**NOTE - ADDITIONAL VIDEO VIEWING:**

In 2017 Easterbrook talks about growth based on what customers want: value and speed, but has also been forced to respond to quality and cleaning up the supply chain, i.e. cage free eggs. He also notes that consumer economic confidence is what ultimately drives customer visits. See **video** <https://www.youtube.com/watch?v=xfn-D654m7s>

1. ***OPTIONAL QUESTION: What other strategies could McDonald’s formulate to achieve a competitive advantage?***

***NOTE: There are no PowerPoint slides to accompany the following.***

**Referencing Chapter 1: Introduction and Analyzing Goals and Objectives**

Strategy is all about the ideas, decisions, and actions that enable a firm to succeed. See Chapter 1, Exhibit 01: *Strategic management consists of the analyses, decisions, and actions an organization undertakes in order to create and sustain competitive advantages:*

* 1. strategy directs the organization toward overall goals and objectives;
  2. includes multiple stakeholders in decision making;
  3. incorporates both short-term and long-term perspectives;
  4. recognizes trade-offs between efficiency and effectiveness.

Leaders face a large number of complex challenges. Leaders must be proactive, anticipate change, and continually refine changes to their strategies. This requires a certain level of “ambidextrous behavior,” where leaders are alert to opportunities beyond the confines of their own jobs, and are also cooperative and seek out opportunities to combine their efforts with others. Leaders must make strategic management both a process and a way of thinking throughout the organization.

See Chapter 1, Exhibit 06: *The primary role of the organizational leader is to articulate vision, mission, and strategic objectives*. Leaders must communicate their initial *vision* of the organization’s purpose. Should McDonald’s evaluate its initial *vision*? What was the original goal that *evoked a powerful and compelling mental image of a shared future,* one that wasmassively inspiring, overarching, and long-term, that represented a destination that is driven by and evokes passion?

Is the original vision still applicable given the present circumstances?

McDonald’s organizational mission needs to be considered: a *mission* encompasses both *the purpose of the company as well as the basis for competition and competitive advantages.* In writing a mission statement, it is important to understand the definition of the business by answering these questions: 1) Who are its customers? 2) What customer need is the organization trying to fulfill? and 3) How does the business create and deliver value to customers and satisfy their needs?

Organizations must respond to multiple constituencies if they are to survive and prosper, and the mission provides a means of communicating to diverse organizational stakeholders. Although vision statements tend to be quite enduring and seldom change, a firm’s mission can and should change when competitive conditions dramatically change or the firm is faced with new threats or opportunities.

Anticipating that things might change, McDonald’s leadership must establish *strategic objectives* to operationalize the mission statement with specific yardsticks. That is, objectives help *to provide guidance on how the organization can fulfill or move toward the “higher goals” in the goal hierarchy* – the mission and vision.

McDonald’s original vision was to provide local customers with a quality meal at a fair price through a quick and convenient service delivery. McDonald’s mission became to deliver this service consistently, providing an all-around enjoyable experience for the whole family. CEO Cantalupo’s objective was to inspire employees and franchisees to “put the smile back into the McDonald’s experience.” External forces had begun pushing for healthier forms of food. Company-owned and franchisee restaurants had inconsistency in service and décor. New menu items had to be accepted by loyal customers. Skinner appeared to have continued with the original vision & mission. Should Easterbrook do the same?

McDonald’s provides an interesting example of a firm that did very well for decades with a clear strategy and then stumbled as it tried to reevaluate what it wanted to do. It is clear from the case that McDonald’s had been tremendously successful primarily as a fast-food chain, with particular emphasis on hamburgers. Should Easterbrook rethink strategy as a result of factors in the environment?

See Chapter 1, Exhibit 1.3 for a depiction of the strategic management process. During *strategic analysis*, the leader does “advance work” to anticipate unforeseen environmental developments, identify unanticipated resource constraints, assess changes in his or her preferences for how to manage. During *strategy formulation,* the organization addresses the issue of how to compete in a given business to attain competitive advantage. Strategies are formulated at the business, corporate, and international levels. Entrepreneurial initiatives may also play a role.

In *strategy implementation*, depending on the type of organization structure, the leader might include key individuals in a discussion around selecting which strategies might be best to implement at which level within the organization. The leader must ensure proper strategic controls and organizational design, and establish effective means to coordinate and integrate activities within the firm as well as with suppliers, customers, and possible alliance partners. Leaders should also be committed to excellence and ethical behavior while promoting learning and continuous improvement. Here’s where innovation is important.

The basic question strategic management tries to answer is: *How can we create competitive advantages in the marketplace that are not only unique and valuable but also difficult for competitors to copy or substitute?*

**NOTE - ADDITIONAL EXERCISES AND VIDEO VIEWING:**

As stated, in writing a mission statement, it is important to understand the definition of the business by answering these questions: 1) Who are its customers? 2) What customer need is the organization trying to fulfill? and 3) How does the business create and deliver value to customers and satisfy their needs? Visit McDonald’s corporate web site to research its mission and vision at:

[http://www.aboutmcdonalds.com/mcd/our\_company/mcd\_faq/student\_research.html?DCSext.destination=http://www.aboutmcdonalds.com/mcd/our\_company/mcd\_faq/student\_research.html#1](http://www.aboutmcdonalds.com/mcd/our_company/mcd_faq/student_research.html?DCSext.destination=http://www.aboutmcdonalds.com/mcd/our_company/mcd_faq/student_research.html" \l "1)

Based on your visit to this website, how do you feel about McDonald’s mission and what its current priorities seem to be?

Here’s a McDonald’s **television** advertisement from 1967:

<http://www.youtube.com/watch?v=RFEkfipbI3Q&feature=related>. Compare McDonald’s positioning of itself within the restaurant industry in 1967 to its positioning today. What are the similarities and differences? Which one seems truest to the original vision and mission of the company?

# Referencing Chapter 4: Assessing Intellectual Capital

Consider the concepts of *intellectual capital* and *human capital*, both of which are intangible assets that a company such as McDonald’s needs to have in order to compete successfully. Intellectual capital is a measure of the value of a firm’s intangible assets, its reputation, employee loyalty and commitment, customer relationships, company values, brand names, and the experience and skills of employees. Human capital involves the individual capabilities, knowledge, skills, and experience of the company’s employees and managers. McDonald’s has some valuable intangible assets to help it carry out its mission, but these need to be further developed, especially now that the company has transitioned to a more franchise-based model. Easterbrook’s leadership is necessary. Given McDonald’s challenges both internally and externally, he must make some good choices about how to compete going forward.

Regarding the *steps Easterbrook could take to fix the problems McDonald’s faced,* McDonald’s should review the components of the strategic management process.

Remember our previous discussion. See Chapter 1, Exhibit 1.3 for a depiction of the strategic management process. During *strategic analysis*, the leader does “advance work” to anticipate unforeseen environmental developments, identify unanticipated resource constraints, assess changes in his or her preferences for how to manage. During *strategy formulation,* the organization addresses the issue of how to compete in a given business to attain competitive advantage. Strategies are formulated at the business, corporate, and international levels. Entrepreneurial initiatives may also play a role.

In *strategy implementation*, depending on the type of organization structure, the leader might include key individuals in a discussion around selecting which strategies might be best to implement at which level within the organization. The leader must ensure proper strategic controls and organizational design, and establish effective means to coordinate and integrate activities within the firm, as well as with suppliers, customers and possible alliance partners. Leaders should also be committed to excellence and ethical behavior while promoting learning and continuous improvement. Here’s where innovation is important.

Once again, the basic question strategic management tries to answer is: *How can we create a sustainable competitive advantage in the marketplace that is not only unique and valuable but also difficult for competitors to copy or substitute?*

McDonald’s CEO Skinner had continued the tough “up or out” grading system for franchisees that identified underperforming units. He introduced new products such as McGriddles breakfast sandwich; added healthier items; created a new promotion, “I’m loving it”; refurbished restaurants, making them more comfortable, providing TVs and wireless access; allowed franchisees to experiment and make changes to fit their local community; moved toward 24/7 all-hour customer access; innovated by incorporating McCafe concept to appeal to another type of customer.

McDonalds’s had already experienced a relatively unprecedented comeback, but were things different now? The prevailing belief was that when restaurants started to slide, it really took a lot to turn them around. Would McDonald’s be the exception? Will CEO Easterbrook guide McDonald’s to be able to successfully compete against all of its rivals? Who’s willing to bet yes?

**Referencing Chapter 6: Formulating Corporate-Level Strategies**

*Corporate strategy* focuses discussion on the questions of what businesses a corporation should compete in, and how the businesses should be managed so they can create “synergy” – creating value through entering new markets or developing new technologies, either through related or unrelated diversification.

***Diversification*** is the process of firms expanding their operations by entering new businesses. In related diversification, a firm enters a different business in which it can benefit from leveraging core competencies, sharing activities, or building market power. Some possibilities include:

* Mergers and acquisitions
* Strategic alliances
* Joint ventures
* Internal development

Whatever the choice, it should create value for all stakeholders – employees, suppliers, distributors, and the organization’s owners themselves. The choice of diversification strategy should create *synergy* so that all parties gain something they would not have had on their own.

When achieving synergy through diversification, a firm has two choices: *related diversification* through horizontal relationships with related businesses, sharing tangible and intangible resources, and leveraging core competencies; and *unrelated diversification* though hierarchical relationships with unrelated business. In this case, value creation derives from the corporate office by leveraging support activities.

McDonald’s has pursued related diversification through its relationships with franchisees.

*Acquisition*is the incorporation of one firm into another through purchase. It can be a means of obtaining valuable resources that can help an organization expand its product offerings and services. Acquisition can lead to consolidation within an industry and can force other players to merge. Corporations can also enter new market segments by way of acquisitions.

McDonald’s tried acquisition of Chipotle Mexican Grill and Boston Market. Cantalupo divested these acquisitions - they did not add enough value to McDonald’s portfolio - were not related enough to McDonald’s *core capabilities*. CEO Skinner continued to pursue internal development. Perhaps Easterbrook will do the same.

# Referencing Chapter 7: International Strategy: Creating Value in Global Markets

*International expansion* is a viable diversification strategy; however, before pursuing this, a firm needs to determine why an industry in a given country is more (or less) successful than the same industry in another country. When choosing a country to expand into, firms must assess the degree of consumer demand, the degree to which resources such as skilled labor and other supplier or supporting infrastructure are developed and available, the speed with which such resources can be deployed, the extent of political and economic risk and corruption, the access to qualified management.

McDonald’s has now had enough experience internationally to learn what works and what doesn’t. Asia Pacific and Europe appeared to be growing. Growth was slower in the Americas. *International expansion* and *internal development* in partnership with franchisees appear to be the best choices for future growth.