

## McDonald's Corporation—Business Development through Franchising and Joint Ventures

As indicated in this chapter, franchising has been the dominant business development strategy in many sectors of the hospitality industry and especially in the foodservice sector. This case looks at the franchising and joint-venture strategies of a leading global fast-food franchisor with over 5,000 franchisees worldwide.

McDonald's Corporation develops, operates, franchises, and services a worldwide system of restaurants that prepare, assemble, package, and sell a limited menu of value-priced foods. All restaurants are operated by the company or under the terms of franchise agreements, by franchisees that are independent third parties, or by affiliates operating under joint-venture agreements between the company and local business people.\*

McDonald's operates primarily in the quick-service hamburger restaurant business. The restaurants offer a substantially uniform menu consisting of hamburgers and cheeseburgers, including the Big Mac and Quarter Pounder with Cheese, the Filet-O-Fish, several chicken sandwiches, French fries, chicken nuggets, salads, milkshakes, cones, cookies, and soft drinks. They also offer a variety of breakfast items and children's meals. In addition, the restaurants sell a variety of other products during limited promotional time periods. The company tests new products on an ongoing process. McDonald's restaurants operate worldwide.

McDonald's is a strong company with a great brand, customer acceptance, and outstanding owner/operators and suppliers. McDonald's is the largest and best-known foodservice retailer, with over 30,000 restaurants in more than 120 countries.

- First franchised McDonald's restaurant: Des Plaines, Illinois, 1955
- First McDonald's franchisee: Art Bender, 1955
- First international McDonald's: British Columbia, Canada, 1967
- McDonald's international division created: 1969
- First twin grand opening: Two restaurants in Cairo, Egypt, 1994
- Seven of the world's busiest McDonald's are located in Hong Kong.
- 70% of McDonald's restaurants, nearly 25,000 restaurants around the world, are operated by more than 5,000 franchisees and affiliates.
- 85% of McDonald's restaurants in the United States are franchised.

**Figure 1** Notable McDonald's Franchising Facts

\*A. Zuber, "New Brands, Lives Revitalized—McDonald's," *Nation's Restaurant News* 34 no. 21 (May 22, 2000).

McDonald's vision is to be the world's best and largest quick-service restaurant chain. Being the best means providing outstanding quality, service, cleanliness, and value. To achieve its vision, it focuses on three worldwide strategies:

- Be the best employer for the people in each community around the world.
- Deliver operational excellence to its customers in each of its restaurants.
- Achieve enduring profitable growth by expanding the brand and leveraging the strengths of the McDonald's system through franchising, innovation, and technology.

McDonald's business is divided into two main parts, company-owned stores and franchising. It has relied on its franchisees to play a major role in its success. McDonald's remains committed to franchising as the predominant way of doing business. Approximately 70 percent of McDonald's worldwide are owned and operated by franchisees. McDonald's continues to be recognized as a premier franchising company around the world. Perhaps the fact that McDonald's management listens so carefully to its franchisees is one reason why McDonald's is perennially named as *Entrepreneur Magazine's* number one franchise for franchisee satisfaction.

Its franchising system is built on the premise that the McDonald's Corporation can be successful only if its franchisees are successful first. The company believes in maintaining a partnering relationship with its owner/operators, suppliers, and employees. Success for McDonald's Corporation flows from the success of its business partners.

The selection of prospective franchisees and owner/operators is based on an assessment of overall business experience and personal qualifications. The company looks for individuals with good "common business sense," a demonstrated ability to effectively lead and develop people, and a history of previous success in business and life endeavors. A restaurant background is not necessary. It franchises only to individuals, not to corporations, partnerships, or passive investors. McDonald's is, by choice, an equal opportunity franchisor, with a proven track record of franchising to all segments of society. In the United States, minorities and women currently represent over 34 percent of McDonald's franchisees and 70 percent of all applicants in training.

McDonald's franchisees need to meet certain criteria, such as:

- Business experience in the market where they are seeking a franchise
- A strong desire to succeed, work hard, and contribute to a winning team
- Demonstrated personal integrity with emphasis on interpersonal skills
- A willingness to participate in a comprehensive training program
- A willingness to personally devote full-time efforts to the day-to-day operations of the business