Innovation Strategy of McDonald Business from Historical perspectives

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Abstract: McDonald’s Businesses sustain as a benchmark with its worth in all over the world from last couple of decades. This study provides the renowned able innovation strategies of McDonald’s businesses from historical perspective, which boost the McDonald’s corporation on current global peak. This study also emphasizes the light on brand extension strategy of McDonald’s business and its risk assessment and mitigation on whole business. Furthermore, it also highlights the national and global advertising strategies of McDonald’s business and its impact on different business models used by McDonald’s in local, regional, and national level. However, marketing effort and brand repositioning has significant impact on overall turnover of McDonald’s corporation. While, franchising models in different regions and states also have a significant impact for promotion of McDonald’s business in entire globe.

Keywords: Innovation strategy, National and Global advertising, McDonald’s business model, brand repositioning

1. Introduction:

In 1930, McDonald family relocated from New Hampshire, Manchester to Hollywood. However, Richard and Maurice McDonald both brothers began working on handymen and animators in studios of Motion-Picture. Mr. Patrick McDonald opened "The Airdrome", a food outlook, on Huntington Drive near the Monrovia Airport in Monrovia in 1937, whereas, hot dogs was the first items sold Strom (2015). After some times, both brothers have decided that they closed down their successful carhop drive-in to establish a streamlined system with a simple menu which consisted of only hamburgers, cheeseburgers, potato chips, coffee, soft drinks, and apple pie because they realized that most of their profits came from selling hamburgers in October 1948. They developed their goals and objective to continue their successful period, for this purpose, they have established two goals in initial stage: more eye-catching appearance and further efficiency improvements, in order to fulfil their goals on time, they needed a new building and they got it in April 1952.

McDonald's Corporation offered its first share at $22.50 and became a public common shares company in 1965. The price had risen to $30 at the end of the first day's trading in the market. The lump of 100 shares purchased for $2,250 in 1965 was the worth of McDonald’s company. According to Peterson (2015) McDonald's Corporation became one of the 30 companies that make up the industrial average of Dow Jones in 1980. The halal food offers for Muslim customers by McDonald’s in 2000, it became a great opportunity for both Muslims and McDonald’s also. However, McDonald's proclaimed that their largest restaurant in the world would be built in London in July 2011. Whereas, this restaurant comprehends over 1,500 seats and 30,000 Milkshakes, 50,000 Big Macs, 470 staffs were employed and 100,000 portions of fries. In January 2012, the McDonald’s corporation declared its revenue for 2011 reached an all-time high of $27 billion, where 1300 new ones opened worldwide and 2400 restaurants would be updated (McDonald’s corporation
annual report, 2015). According to Devanshi Dixit (2017) McDonald’s has become the world largest fast food restaurants in the sense of hamburger chain in USA, where they are serving 68 million customers every day in 119 countries with 36525 outlets. Ray Kroc, founder of McDonald’s said “To be successful, we need common sense, dedication to the principles and a love to hard work. The harder you work and the more pride of accomplishment you feel, the luckier you get. Luck is dividend of sweat”.

However, McDonald’s became successful to get intention from investors, shareholders and stakeholders around the world. Whereas, McDonald’s renowned as a brand of fast food in the existing market and every big investor want to become part of McDonald’s brand in order to receive more profit on their small investment. In those days, Brand extension is an important cost effective marketing method to offer new products. Firms are considered good and bad not only on the basis of their behaviors in the ethical domain but also from the ways their products perform. Previous research supports the notion that negative information about product attributes influences consumers’ attitudes toward brands more than does positive information about product attributes (Herr, Kardes, & Kim, 1991). Although attribute performance suggests how to classify the product (Herr et al., 1991), such information may be much less diagnostic of a firm's underlying characteristics. Whereas, the firms may have reasons for offering low-quality products that do not suggest bad character on low-quality product is designed to serve a segments' need for a low-priced product. If so, consumers' attitudes should differ depending on firm ethics regardless of product attribute inferiority. Shabbir et al, (2016) at some extent, some of the social media applications in the present time have become most efficient and effective tool for small business entrepreneurs and normally all small business use social media platform for the advertising and publicity of their products and services, they make fan pages for the followers and they warmly welcome the suggestions and opinions which help in improving their business.

Purchase intention is the implied promise to one’s self to buy the product again whenever one makes next trip to the market (Fandos & Flavian, 2006; Tariq et al, 2013). It has a substantial importance because the companies want to increase the sale of specific product for the purpose to maximize their profit. Purchase intention depicts the impression of customer retention. There are certain functions of the brand which have a strong influence on the purchase intention of the customer’s i.e. brand image, product quality, product knowledge, product involvement, product attributes and brand loyalty. To maximize the acceptance and recognition of new products in Pakistan, it is appropriate to test the theory by hypothesizing that favorable consumers’ evaluation of brand extension in Pakistan is dependent on attributes of complementarity, substitutability, transferability and difficulty, and the indirect effect of parent brand quality through moderating role of quality on the complementarity and substitutability.

Tentatively, part one will be the Introduction and history of McDonald’s, In part two the discussion related literature review, Part three will cover McDonald’s advertising strategy. McDonald’s global strategy and McDonald’s business models will discuss in part four and five respectively. Finally, the concluding remarks will discuss at end of the report.

2. Literature Review:

Tariq et al., (2013) explain purchase intention as the number of patrons that has a proposal to buy the products in future and make repetition purchases and contact again to the specific product. In and Nadolny (2015) explains purchase intention relating four behaviors of consumers including the undoubted plan to buy the product, thinking unequivocally to purchase the product, when someone contemplate to buy the product in the future, and to buy the specific product utterly. Fandos and Flavian (2006) explain the phenomenon of purchase intention as the projected behavior of consumers on short basis about the repetition purchase of
specific product, for instance, when someone decided to buy the product whenever he/she will come again to the market.

Arslan and Altuna (2010) defined brand image as the positive and negative feeling about the brand when it comes to the mind of the consumers abruptly or when they recall their memories. They have the view that there are three aspects of brand image which make the whole image of the brand which are; favorability, strength, and distinctiveness. Meenaghan (1995) explains brand image in terms of the attitudes of the consumers about the particular brand which helps to point it and thinking of the buyers in the significant way to make the product different from others. Bian and Moutinho (2011) described the phenomenon by using marketing sense to explain it as the set of statements given to the target market to capture the purchase intentions of the targeted consumers. Lee and Wu (2011) explain the brand image as the overall mind reflection and beliefs about the particular brand by keeping in mind its unique qualities which make it different from the others. Sebastianelli and Tamimi (2002) explained product quality as something which resembles with the innate excellence, which mean, it comes from the production level and it should be recognizable. They emphasized that quality should consist of measurable features instead of preferences.

Shabbir MS (2016) analyzed the effect of media on buying behavior of fast food in children. However, comparatively we have analyzed how the parents and peers play their roles in making buying decision of their children. He used primary data to find out consumer socialization and factors that affect children influencing and final decision making in doing any purchase. In the contemporary business world, the competition among firms is different from the past as this is understated which is little but very crucial. The firms are attempting for competitiveness that help them to hold more stable place in the market. The ideal route for firms to attain, it is with the innovation (Shabbir MS 2015). Whereas, Shabbir and Zaman (2016) explore and pinpoint some of marketing strategies issues which can be helpful for new investors and old stakeholders in financial sector, In order to penetrate successfully in the market. Furthermore, this study investigates that what can be suitable and effective marketing strategies for financial institutions?

2.1 Brand Extension Theory

Based on two sets of social psychology theory including associative memory network model and categorization theory or brand extension theory has been evolving since 1990. In terms of brand extension theory, higher quality perceptions about the original brand are associated with favorable attitudes for the extension. Furthermore, congruence between the original brand associations and the new category concepts is reflected through the three fit attributes. This particular attribute is perhaps more helpfully conceived as the opposite of triviality, in the sense that subjects might evaluate trivial extensions poorly, like McDonald’s Food is marketing ball point pen Shabbir (2014).

However, brand characters are considered as abundant in brand marketing. Some of past studies inaugurate their relevance in advertising. Whereas, a few studies highlighted the importance of brand characters and brand management strategies, such as a cat embodying prettiness and virtuousness and Sanrio's iconic character Hello Kitty. The result of this study indicates that eight tactics help to build and sustain the Hello Kitty brand: furthermore he developed relationship of brand extension variables with other effective variables such as, brand extensions, sustaining consumer interests, character licensing, third-party collaboration, harnessing technology, capitalizing on nostalgia, product-line extensions Hosnay (2013).

It is observed that most valuable intangible asset of any firm became successful brands due to represent the space occupied by a firm’s products or services in retail shelf space and consumer mind Kotler (1996). According to American Marketing Association (2007) brand extensions have significant impact on regimes
of consumer. A brand extension can be defined as, “A name, term, sign, symbol, or design, or a combination of them, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competition”.

2.2 Risk Assessment and Mitigation

According to Jon and Nickas (2012) they helped to develop an advanced cataloguing system and software solution, which named as the Restaurant Risk Assessment Management Program (RAMP) for McDonald’s teams. However, a comprehensive program was premeditated to recognize and track the security risks as well as provide corrective measures to be considered at specific McDonald’s locations for security management. The RAMP system provides McDonald’s below incentives in sense to avoid from different risk assessment and its mitigation:

- **Reduce Legal Liability:**
  By incorporating crime risk assessment (CAP) Index into this program, McDonald’s now has a robust crime management solution that will meet or exceed industry practices.

Due diligence requires the assessment of risk factors and the refinement of security measures, given the risk. Premises security lawsuits are driven by companies that fail to protect people from reasonably foreseeable criminal conduct.

**Identify and Rank Security Risks.**
McDonald’s locations are categorized into low, medium, and high risk tiers with the help of CAP Index Scores, and serious event history, while using data such as facility type and geographic location.

**Monitor, Analyze, and Adjust.**
McDonald’s can monitor changes at each location, adjust security allocations, and visualize trends, accordingly to the collected data.

- **Better Manage Costs by Optimizing Resource Allocation.**
  McDonald’s can now mitigate risk, customer safety and optimize employee and while better managing costs by allocating asset protection resources through the tier system.

- **Standardize Incident Response and Reporting.**
  While providing a central repository for that information, RAMP system helps each location for documentation of all serious incidents and to deliver a uniform response.

3. McDonald’s Advertising Strategy:

McDonald’s has three main advertising strategies namely used as, National advertising strategy, Regional advertising strategy and Local advertising strategy.

3.1 McDonald’s National Advertising Strategy

McDonald’s National Advertising Strategy is also called level 1 strategy. McDonald’s advertising fees or charges are directly tied to the individual store sales or revenues Forbes (2013). We assume the monthly revenues for a single McDonald’s restaurant to be approximately $120,000.

Table 1: Based on Monthly Sale of one McDonald’s Restaurant.

| Estimated: | $120,000.00 |
| Monthly Sales/Revenues | X 0.10 |
Percent Rent Fee (Figuring 10%)  $12,000.00
Service (Advertising Fee –4%)  $150,000.00

\[ \text{X 0.04} \]
\[ \text{\$ 4800} \]

So, franchise xyz must have to pay $ 12,000 + $ 4800 = $ 16,800 to McDonald’s every month. However, 4% advertising fee divided into this way, 2% ($ 2400) goes to national advertising of McDonald’s and rest of 2% ($ 2400) for regional advertising.

3.2 McDonald’s Regional Advertising Strategy

The second level of advertising at McDonald’s is more of a “regional” approach to marketing. Here the 2% out of 4% advertising fee charged by McDonald’s, which further goes into a regional of account. For instance, in North Texas a regional corporation office would consist of the owners from the various McDonald’s restaurants in the central and north Texas area. These regional owners have the power to determine how their 2% of monthly revenues will be spent in the specific region of McDonald’s. This group of owners will meet approximately once a month, in conjunction with a hired advertising agency that supports the owners, to discuss and plan a marketing approach for the regional McDonald’s franchisees Gerhardt (2014).

3.3 McDonald’s Local Advertising Strategy

According to Gerhardt (2014) final level of advertising for McDonald’s marketing/advertising is initiated at the individual restaurants of McDonald’s. Whatever, money they desire from their individual stores for revenues to promote that specific store’s success, this is called the individual franchisee spending. However, Levels I and II spent anything above and beyond the 4%. This is beauty level of marketing within the McDonald’s restaurants. The individual franchisee contracts directly with their community and individual store customers in this case.

4. McDonald’s Global Strategy:

4.1 McDonald’s Strategy in India

According to Devanshi Dixit (2017) localization by keeping in mind that if you became successful to sell your products in India then you can sell it anywhere, due to open market and lot of Multinational Companies operator from India. It is also observed that 2000 kg Iceberg lettuce, 3500kg of tomatoes, more than 500 slices of cheese and around 9000 hamburger buns, on a daily basis and price compassion studies are conducted before determining pricing even the rate of inflation is appraised extremely intricate in India. They used more than 60 refrigerated trucks and 40 different suppliers to deliver them in 225 restaurants around the country.

4.2 McDonald’s Strategy in Russia

The menu items are potato wedges, cabbage pie and cherry pie, which available in McDonald’s at Russia. McDonald’s gave an incentive to their customers through providing different item on different stages such as in Moscow with breakfast menu and stronger coffee, which enabled their customers who left early for work, to avoid eating out and traffic issue. The products are available in manageable budget for Russian
people to buy easily. The McCafe was introduced in two main and favorite places Arbat and Pushkin Square McDonald’s. Whereas, an average of 600 transactions per day served by Pushkin Square McCafe and it is also observed that 6 out of 10 people prefer to have beverages at McCafe than other restaurants Devanshi Dixit (2017).

### 4.3 The Importance of Digital Strategy

Kane et al., (2015) investigated that simply using digital technologies are not sufficient. For instance, it is considered as scanty to listen the twitter data. It becomes compulsory for companies now a day, how to explore and interpret the data, whom for to listen, and how well to respond. However, it is pragmatic that acquiring and implementing the right technology is less effective as compared to digital strategies than about reconfiguring your business to take advantage of the information from these technologies enable. A variety of digital technologies assimilated diagonally from people are important for companies to bring their customers together, while the main goals and objectives processes and functions to get compensations business restaurants Shabbir (2014). The digital maturity is playing a vital role in the developing of digital strategy of any company. It is perceived that companies used digital technologies to improve their customer’s interaction services, regardless of any maturity level. It is further differentiates the objective of most mature companies, which show the willingness for their business activities in global market to promote and proportion of their good and services. Our survey results conclude with remarks that, early-stage companies have 35 percentages fewer transforming the business report as compared to digitally maturing companies, it is a major goal of their digital strategy. (“How Digital Strategy Objectives Vary,” p. 40.)

### 5. McDonald’s Business Model:

The below Business Model of McDonald’s is a franchise-based model attached with strong corporate branding. The primary focus of this model is on brand extension of McDonald’s which is globally accepted with the perception of customers.

![Business Model Diagram](image)

*Source: Sameer (2012) Strategy and Repositioning the Brand McDonald’s in India*
5.1 Happy Customers means Happy Employees

[Diagram: Happy Customers means Happy Employees]

McDonald’s realized very early in their business that in order to achieve happiness amongst customers; the possible route is through happy, motivated and committed employees. They followed on the customer first strategy to start both employees and customer’s happiness. McDonald’s presented a best example for happiness of both customers and employees in India, through using different modern and business strategies. According to Sameer (2012) they adapted themselves to entertain the taste sprouts of their Indian customers to become a brand that enjoys a very high brand in the existing market.

5.2 Franchising Model of McDonald’s

There are a variety of terms and conditions of McDonald’s franchise with regard to individual and collective store franchise fees. For assortment of fees and apposite circumstances, every branch McDonald’s restaurant appoints an operator’s lease for specific region. Gerhardt et al., (2012) concluded that the operators lease is a legal document signed by the franchisee, which means that particular fees and rents from this specific McDonald’s restaurant in order to maintain the accounts. However, every individual store of McDonald’s has a separate and precise operator’s lease. Furthermore, McDonald’s classified three rudimentary agreements that can originate in the operator’s lease in order to understand the full enormness of this lease and its fees, which helped the research department of McDonald’s for further analyzed and deliberated. These three agreements are the Business Facilities Lease, the Joint Venture and the Conventional Franchise agreements (McDonald’s Corporation, 1988).

5.2.1 Business Facilities Lease (BFL)

The Business Franchise Lease (BFL) is known as the first agreement for purchasing a McDonald’s restaurant. The BFL program facilitates such outstanding individuals, who has lack the funds to qualify under other agreements such as, Joint lease and conventional franchise agreement. There are some easy terms and conditions under BFL program for franchisees, for instance, 25% down payment of a purchase restaurant and $ 45,000 for the franchise fee. It is noticed that first 3 years franchises owners pay a higher amount to settle the paid 25% down payment of purchased restaurant. According to McDonald’s corporation report (1988) franchises have preferred BFL agreement due to its easy and outstanding outcomes as compared to rest of McDonald’s facilities lease agreements. The past years reports showed that the sales price lies between 42% - 52% (McDonald’s Corporation, 1989).
5.2.2 Joint Venture

Another facility lease program known as Joint Venture was started by McDonald’s in late 1990’s. The beauty of this lease program was to facilitate existing franchisees with less capital expense to promote their existing businesses. McDonald’s Corporation gives the right to Joint Venture franchisees to become their partners. For instance, if McDonald’s had corporate supplies that they wanted to sell, they may compromise them to an existing franchisee as a joint venture first. The McDonald’s corporation took $5,000 per month approximately for each store involved in the joint venture agreement Elango, (2007). However, in between of 40% - 60% each joint venture franchisee got from McDonald’s corporation depending on the agreement and place of the store located. It is noted that joint venture agreement is become popular and used in other countries outside USA by McDonald’s corporation (McDonald’s Corporation, 1988).

5.3.2 Conventional Franchise

The most popular franchisee in McDonald’s is called “Conventional Franchises”, where a bilateral contract has signed between the McDonald’s Corporation and franchisee. However, 4% approximately deducted from the monthly sales of any conventional franchise store for operator’s lease expense of McDonald’s Corporation. The purpose of this 4% deduction amount is to use for marketing and advertising of McDonald’s brand. In simple words, we can say it is advertising fee of brand. The McDonald’s Corporation used this amount for the promotion of its franchises using through different sources of print and electronic media. Whereas, this 4%, is treated as an ongoing “monthly fee” of 8.5% to 13% on franchises monthly revenues for those buildings, which are owned by McDonald’s. When, the franchisee owns the building from their personal sources then the percentage of the rent expected to be reduced in some cases. It is also noted that in some cases franchisee holds the passion for both land and building of McDonald’s restaurants. Hence, McDonald’s owns thousands of prime commercial locations and become country’s leading real estate holding enterprises throughout the United States (McDonald’s Corporation, 1988).

5.3 McDonald’s Efforts of Repositioning its Brand

Some of studies for instance, Durrani & Hussain (2009) and Ahmed et al (2009) evaluated successful brand extension and its impact on firm level, which based on telephone interviews from brand managers and different survey techniques from target customers to compare the results. However, McDonald's management has realized to improve its customer preference strategies, so they start provide now sitting and meeting area cabins for customers.

Source: Hatch and Schultz (2003), “Bringing the Corporation into Corporate Branding”,

IJBM, Vol 7: Issue12, Page No: 30-41
According to Sameer (2012) recent McDonald's rebranding strategy is a part of this believed and revelation to upgrade the standard of menu in McDonald’s for the betterment of their customer’s, as some bad news surrounding against McDonald’s taste and menu of McDonald’s franchises around the world. Some of news channels make headlines for victimization people, who suffering in heart diseases and obesity issues.

However, the cause of the shift can be drew to that particular conviction that, marketers are transferring toward holistic corporate branding from their product brands, corporate image carries a great impact on the buyers awareness and experience, which further asses from media reporting on various issues such as corporate social responsibility and environmental responsibility sameer (2012).

5.4 Objectives of McDonald's Repositioning Strategy

According to Sameer (2012) McDonald’s, rethink and reposition its brand offerings in different countries, due to its promise that people can find American fast food in around the World. For instance, cow’s meat is not allowed according to Indian law to eat in any place of India, so, McDonald’s don’t have beef dishes. However, they have some popular dishes a potato-based patty in burger buns; the Big Mac in chicken; McAlooTikki, the Big Mac is replaced by the Maharaja Mac, there is also the paneer cottage cheese McVeggie burger.
5.5 McDonald’s Marketing Efforts over the Years

**1997-2000**
Building the brand identity was their objective by:
1. Trying to project themselves as an Indian brand and not a foreign one.
2. Informational Appeal used to educate customers about their Products.
3. Stressing on the different installations for preparing veg and non veg food items.
4. The famous mascot Ronald McDonald was also used to connect with the kids.

**2000-2009**
Increasing Brand Recall was the next step onwards:
1. Adopting aggressive TV advertising and using a humor appeal.
2. Introducing the Happy Price Menu as a cost leadership strategy initiative.
3. A shift from the target audience of the Indian Family to the Indian Youth.
4. Delivery Service was also started thereby diversifying the service model.

**2010 Onwards**
Creating brand differentiation through cost leadership and expanding menu offerings is their current strategy.
1. Their advertisements have an emotional appeal to them now with "the har chhoti khushi ka celebration" tagline.
2. Brand reinforcement through print ads and radio ads with the classic McDonald’s “I’m lovin it” mini jingle.

*Source: Sameer (2012) Strategy and Repositioning the Brand McDonald’s in India*

Conclusion and Recommendation:

In our study, consumer evaluation of brand extension is dependent on quality of the original brand, in certain usage situation and helpfulness of people, for making its extension. Furthermore, some variables including complementarity, difficulty and moderating role of quality with fit attributes have been found as irrelevant for determining consumer evaluation of brand extension in USA. However, Brand Managers may utilize consumers’ perception of quality for their original brand for marketing extension brands. They should realize that ‘perception of quality’ is the major effect in for the promotion of product in McDonald’s franchises. While, brand managers should never compromise on quality. Further, investment to build brand equity is the right approach and perception of quality of the original brand is the most important factor for successful brand extension. It is observed that brand managers can go for similar brand extension where transfer of company resources and skill set is significant.

We conclude with these remarks that brand extension research should concentrate on finding country specific model instead of generalization at the world level. However, McDonald’s primarily focused on menu of healthy food and improves it with suggestions of their target customers and needs & wants of their customer’s properly into consideration for sustainable development of McDonald’s brand in the entire market as a leader.

References:


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