

Case Group A Market Opportunity Analysis

Case 1

McDonald's Corporation in the New Millennium

J. Paul Peter and Ashish Gokhale *University of Wisconsin–Madison*

Jack Greenberg, CEO of McDonald's Corporation, stared into the clear September skies thinking about the "Big Mac Attack." At one time, the term was an advertising slogan referring to a craving for a McDonald's Big Mac burger. However, "Big Mac Attack" now referred to McDonald's earnings declines in the late 1990s and early 2000s. Dynamic market expansion, new products, and special promotional strategies had made McDonald's Corporation a leader of the fast-food industry. However, sales growth in the United States had slowed to below the industry average in recent years. Jack Greenberg was trying to decide on a set of appropriate strategies for the future in order to reverse the declines and to stay ahead of competition.

The Fast-Food Industry

Years of profit drains and flat sales are driving fast-food chains to find new marketing strategies to compete in a mature market. While McDonald's and most other hamburger

J. Paul Peter is James R. McManus–Bascom Professor in Marketing and Ashish Gokhale was a Project Assistant at the University of Wisconsin–Madison.

A major change in the fast-food industry is the increase in the fast-casual segment that includes restaurants like Boston Market, Panera Bread Company, and Atlanta Bread Company. These chains offer deli sandwiches and meals that are more upscale than traditional fast food, served in nicer restaurants with more comfortable surroundings, but faster than in traditional restaurants. It is estimated that the fast-casual sector is growing from 15 to 20 percent per year, while growth in the quick service sector is only about 2 percent a year. "People are willing to pay a couple dollars more for a better dining experience, yet don't want to sacrifice the convenience of quick service. Fast-casual combines all the elements for what the on-the-go consumer—which seems to be almost everyone these days—is looking for," said one analyst.¹

Americans are eating out less often compared to previous years and eating habits are changing.² Though the recession is a major reason why folks aren't eating out as much at upscale restaurants, it's another story at fast-food restaurants. Many younger consumers are getting tired of fast food and are thinking about their health. There seems to be a growing dissatisfaction with the quality aspect of the McDonald's and Burger Kings of the world. It's not just young adults who are turning away from fast food. Baby boomers are also looking for "better" alternatives and fast food is not as appealing to this large group who frequently eat out.

McDonald's Corporation

McDonald's systemwide sales for 2001 were over \$40 billion, but net income shrunk 17 percent to \$1.64 billion, as shown in the exhibit. McDonald's U.S. market share remained above that of competitors, but grew more slowly. Its share was up 2.2 percent in 2000 compared to 2.7 percent growth for Burger King Corp. and 2.5 percent for Wendy's International.³

EXHIBIT McDonald's Corporation Summary of Financial Data 1997–2001

Dollars in Millions, Except per Share Data	2001	2000	1999	1998	1997
Franchised sales	\$ 24,838	24,463	23,830	22,330	20,863
Company-operated sales	\$ 11,040	10,467	9,512	8,895	8,136
Affiliated sales	\$ 4,752	5,251	5,149	4,754	4,639
Total Systemwide Sales	\$ 40,630	40,181	38,491	35,979	33,638
Total revenues	\$ 14,870	14,243	13,259	12,421	11,409
Operating income	\$ 2,697	3,330	3,320	2,762	2,808
Income before taxes	\$ 2,330	2,882	2,884	2,307	2,407
Net income	\$ 1,637	1,977	1,948	1,550	1,642
Cash provided by operations	\$ 2,688	2,751	3,009	2,766	2,442
Capital expenditures	\$ 1,906	1,945	1,868	1,879	2,111
Free cash flow	\$ 782	806	1,141	887	331
Treasury stock purchases	\$ 1,090	2,002	933	1,162	765
Financial position at year end					
Total assets	\$ 22,535	21,684	20,983	19,784	18,242
Total debt	\$ 8,918	8,474	7,252	7,043	6,463
Total shareholders' equity	\$ 9,488	9,204	9,639	9,465	8,852
Shares outstanding IN MILLIONS	1,280.7	1,304.9	1,350.8	1,356.2	1,371.4
Total Systemwide Restaurants	30,093	28,707	26,309	24,513	22,928

¹Mitchell Speiser, analyst at Lehman Brothers.

²Harris Interactive, December 2001.

³Kate MacArthur, *Advertising Age*, Mar. 18, 2002.