

### **Unit I Case Study**

Read the Cohesion Case on pages 27-37 in the course textbook. Create a five- to seven-page PowerPoint presentation in which you a) briefly describe your view of McDonald's strategic position, and b) answer Step 4 of the Assurance of Learning exercise on page 37.

### **Unit II Case Study**

Complete the Assurance of Learning Exercise 3D on page 87 of the course textbook. In addition to completing Steps 1, 2, and 3, summarize your findings in a two-page APA formatted paper and discuss your views of McDonald's strategic prospects based upon your analysis of the external assessment and consideration of the opportunities to grow, as well as threats from competitors and the macro environment.



## THE COHESION CASE

### McDonald's Corporation—2009

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www.mcdonalds.com

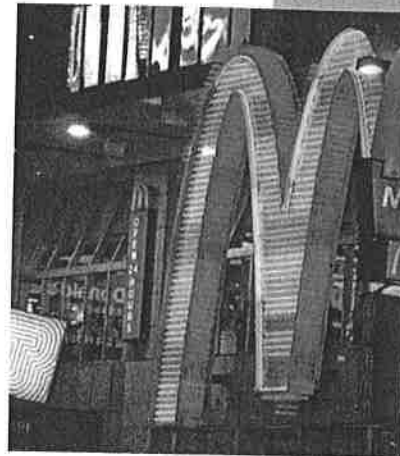
On May 5, 2009, McDonald's Corporation (MCD, hereafter) and Starbucks went full force campaigning for the attention of coffee connoisseurs. Following its success with McCafés in Europe, MCD surprised Starbucks with its announcement to offer lattes and mochas in its McCafés in the United States. In an attempt to woo rival Starbucks' customers, MCD promised to offer premium taste at bargain prices. This announcement came at a time when Starbucks, hard hit by losses, was closing hundreds of stores in the United States. The MCD–Starbucks fight is everywhere on the tube, in print, and the airwaves. MCD even taunts Starbucks with ads on buses and billboards that read “4 bucks is dumb.” Starbucks is retaliating by placing newspaper ads that read “Beware of a cheaper cup of coffee. It comes with a price.”

In April 2009, MCD reported strong sales growth in the first quarter of 2009 in spite of recessionary conditions worldwide. MCD sales in the United States increased by 4.7 percent, in Europe by 3.2 percent, and in Asia/Pacific, Middle East, and Africa by 5.5 percent. But as the U.S. dollar gained strength against most currencies, especially the euro, British pound, Australian dollar, Canadian dollar, and the Russian ruble, MCD experienced \$642 million in foreign currency translation losses in the first quarter of 2009, as indicated in Exhibit 1. Undeterred, however, MCD is forging ahead with a renewed commitment to allure coffee enthusiasts away from rivals, big and small.

#### History

MCD was launched in 1940 when brothers Dick and Mac McDonald opened a restaurant in San Bernadino, California. However, the credit of growing the corporation into a franchised, global operation is attributed to Ray Kroc, who acquired equity from the McDonald brothers and took the firm public in 1965. MCD has a really cool history timeline called “Travel in Time with Us” located at the [http://www.aboutmcdonalds.com/mcd/our\\_company/mcd\\_history.html](http://www.aboutmcdonalds.com/mcd/our_company/mcd_history.html) Web page. It reveals information such as the following:

- 1979 MCD introduced Happy Meals
- 1981 MCD opened stores in Spain, Denmark, and the Philippines
- 1983 MCD entered its 32nd country
- 1984 Ray Kroc passed away
- 1987 MCD introduced Fresh Salads
- 1990 MCD opened a store in Moscow, Russia
- 1992 MCD opened a store in Warsaw, Poland
- 1995 MCD's new ad was “Have You Had Your Break Today?”
- 1996 www.mcdonalds.com Web site introduced
- 1997 MCD's new ad was “Did Somebody Say McDonald's?”
- 2001 The Big N'Tasty sandwich introduced
- 2003 MCD introduced Premium Salads and its “Plan to Win” strategy
- 2006 MCD introduced Snack Wraps



**EXHIBIT 1 Impact of Foreign Currency Translation (\$ in millions, except per share data)**

Quarter ended March 31	2009	2008	Currency Translation Profit/(Loss) in 2009
Revenues	\$5,077.4	\$5,614.8	(642.4)
Company-operated margins	564.2	659.2	(72.5)
Franchised margins	1,296.0	1,316.2	(109.0)
Selling, general, and administrative expenses	497.3	552.4	43.0
Operating income	1,400.4	1,462.8	(137.9)
Net income	979.5	946.1	(86.2)
Earnings per share—diluted	0.87	0.81	(0.08)

Source: SEC 10-Q, May 5, 2009.

Today, MCD is the largest global food service retailer, with over 31,000 restaurants in 118 countries serving more than 58 million customers each day. Exhibit 2 shows MCD's global locations. The number of restaurants held and operated by MCD in 2008 and 2009 in each group indicates steady growth in every country of operation except for the United Kingdom, where the growth is flat.

**EXHIBIT 2 MCD's Number of Restaurants Worldwide**

As of March 31	2009	2008	Increase
<b>U.S.</b>	<b>13,898</b>	<b>13,871</b>	<b>27</b>
Europe	1,337	1,301	36
Germany	1,192	1,192	—
United Kingdom	1,135	1,108	27
France	393	379	14
Spain	381	363	18
Italy	2,212	2,142	70
Other	<b>6,650</b>	<b>6,485</b>	<b>165</b>
<b>Total Europe</b>	<b>3,746</b>	<b>3,737</b>	<b>9</b>
<b>APMEA (Asia/Pacific/Middle East/Asia)</b>	<b>3,746</b>	<b>3,737</b>	<b>9</b>
Japan	1,074	911	163
China	782	762	20
Australia	347	346	1
Taiwan	2,378	2,216	162
Other	<b>8,327</b>	<b>7,972</b>	<b>355</b>
<b>Total APMEA</b>	<b>8,327</b>	<b>7,972</b>	<b>355</b>
<b>Other Countries and Corporate</b>	<b>1,419</b>	<b>1,408</b>	<b>11</b>
Canada	563	553	10
Brazil	382	365	17
Mexico	821	785	36
Other	<b>3,185</b>	<b>3,111</b>	<b>74</b>
<b>Total Other Countries and Corporate</b>	<b>32,060</b>	<b>31,439</b>	<b>621</b>
<b>Systemwide restaurants</b>	<b>118</b>	<b>118</b>	<b>—</b>
<b>Total Countries</b>	<b>118</b>	<b>118</b>	<b>—</b>

Source: SEC 10-K, dated February 25, 2009.

## Internal Issues

### Organizational Structure

MCD's top leadership has seen some turnover recently. The position of controller stands vacant, and the McDonald's USA group currently includes new executives to head its East and West Divisions. Exhibit 3 provides a list of MCD's top leadership as well as the firm's organizational chart.

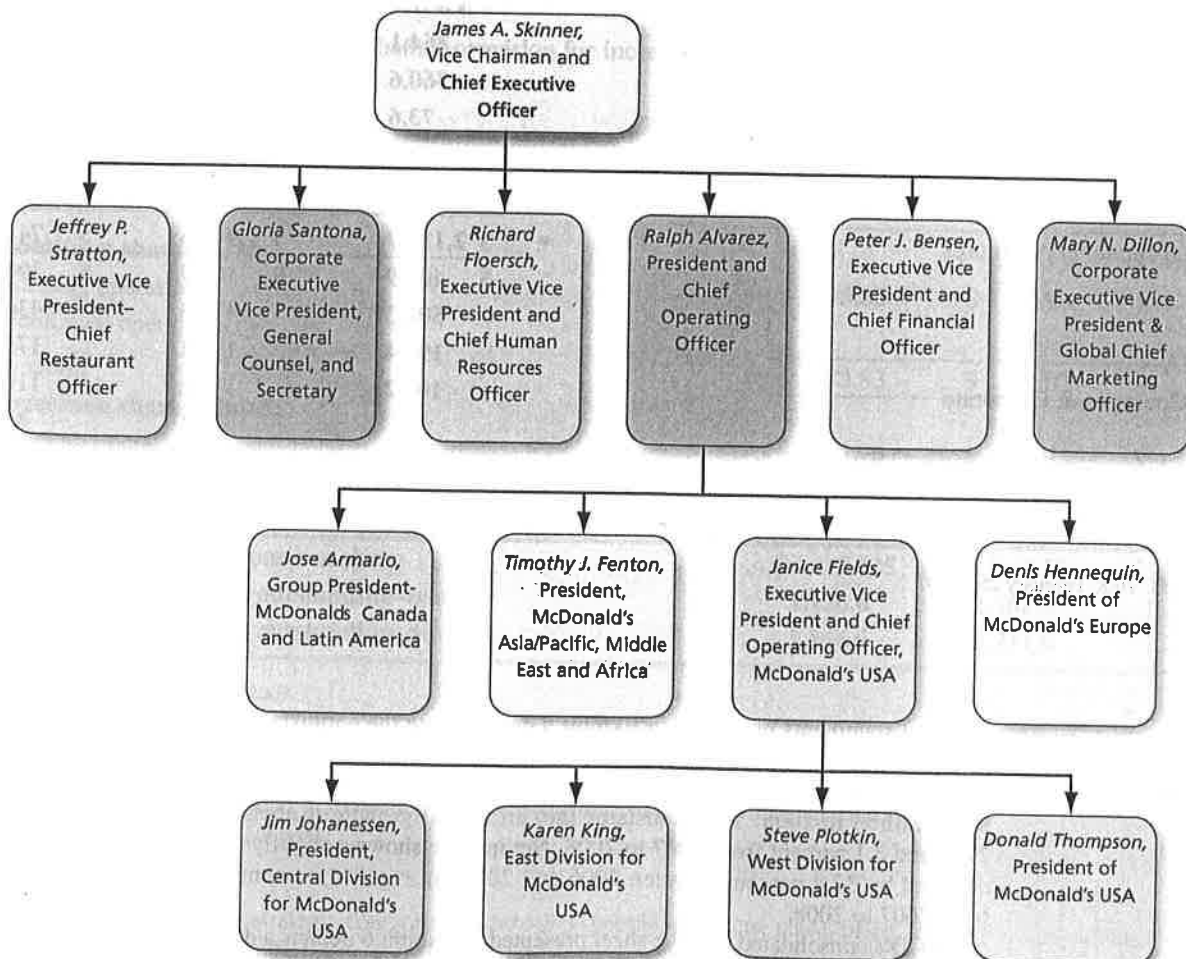
Note that MCD's operations are organized into a geographical structure with four key segments. These four segments are (1) McDonald's—USA, (2) McDonald's—Europe, (3) McDonald's—APMEA (Asia/Pacific, Middle East, and Africa), and (4) McDonald's—Other Countries and Corporate.

### Finances

In addition to the steady growth in the number of restaurants, MCD exhibited strong financial performance by geographic segment between 2008 and 2009, even as the worldwide economic crisis negatively impacted MCD's key competitors. As shown in Exhibit 4, revenues and operating margins in the three key segments (United States, Europe, and APMEA) rose steadily in 2006 through 2008, offsetting declines in the "Other and Corporate" segment.

MCD delivers consistently good performance, making it a darling for investors. In April 2009, major industry analysts rated MCD as a "buy," suggesting low levels of risk for investors. MCD's

**EXHIBIT 3 McDonald's Corporation: Executive Officers and Organizational Chart**



Source: [http://www.aboutmcdonalds.com/mcd/our\\_company/bios.html](http://www.aboutmcdonalds.com/mcd/our_company/bios.html)

**EXHIBIT 4 Select Financial Data by Geographic Segment**

In millions	2008	2007	2006
U.S.	\$ 8,078.3	\$ 7,905.5	\$ 7,464.1
Europe	9,922.9	8,926.2	7,637.7
APMEA (Asia/Pacific/Middle East/Africa)	4,230.8	3,598.9	3,053.5
Other Countries & Corporate	1,290.4	2,356.0	2,739.9
<b>Total revenues</b>	<b>\$23,522.4</b>	<b>\$22,786.6</b>	<b>\$20,895.2</b>
U.S.	\$ 3,059.7	\$ 2,841.9	\$ 2,657.0
Europe	2,608.0	2,125.4	1,610.2
APMEA	818.8	616.3	364.4
Other Countries & Corporate	(43.6)	(1,704.6)	(198.6)
<b>Total operating income</b>	<b>\$ 6,442.9</b>	<b>\$ 3,879.0</b>	<b>\$ 4,433.0</b>
U.S.	\$10,356.7	\$10,031.8	\$ 9,477.4
Europe	10,532.7	11,380.4	10,413.9
APMEA	4,074.6	4,145.3	3,727.6
Other Countries & Corporate	3,497.5	3,834.2	3,529.4
Businesses held for sale			1,631.5
Discontinued operations			194.7
<b>Total assets</b>	<b>\$28,461.5</b>	<b>\$29,391.7</b>	<b>\$28,974.5</b>
U.S.	\$ 837.4	\$ 805.1	\$ 774.3
Europe	864.1	687.4	504.9
APMEA	360.6	302.8	208.1
Other Countries & Corporate	73.6	97.3	85.4
		43.7	87.0
		10.3	82.2
<b>Total capital expenditures</b>	<b>\$ 2,135.7</b>	<b>\$ 1,946.6</b>	<b>\$ 1,741.9</b>
U.S.	\$ 400.9	\$ 402.7	\$ 390.5
Europe	506.3	473.3	436.4
APMEA	193.4	178.1	171.8
Other Countries & Corporate	107.2	112.6	110.4
		26.1	81.8
		21.3	59.0
	<b>\$ 1,207.8</b>	<b>\$ 1,214.1</b>	<b>\$ 1,249.9</b>

Source: SEC 10-K, February 25, 2009.

financial statements presented in Exhibit 5 demonstrate the enthusiasm of the analyst community. The MCD income statement provided in the exhibit demonstrates continuous and steady revenue growth. Total revenues grew from \$20.9 billion in 2006 to \$22.8 billion in 2007 and \$23.5 billion in 2008. That translates into an annual growth of about 9.1 percent from 2006 to 2007 and 3.1 percent from 2007 to 2008. Net income shows a slightly different trend. Net income declined by 32.4 percent between 2006 and 2007 but regains momentum by growing 80 percent from 2007 to 2008.

MCD's consolidated balance sheet presented in Exhibit 6 depicts a decline in total assets held by the company from about \$29.02 billion in 2006 to about \$28.5 billion in 2008. At the same time, both long term debt and retained earnings increased significantly. Because the interest rate on short-term

**EXHIBIT 5 McDonald's Consolidated Statement of Income**

In millions, except per share data	Years ended December 31	2008	2007	2006
<b>REVENUES</b>				
Sales by Company-operated restaurants		\$16,560.9	\$16,611.0	\$15,402.4
Revenues from franchised restaurants		6,961.5	6,175.6	5,492.8
<b>Total revenues</b>		<b>23,522.4</b>	<b>22,786.6</b>	<b>20,895.2</b>
<b>OPERATING COSTS AND EXPENSES</b>				
Company-operated restaurant expenses				
Food & paper		5,586.1	5,487.4	5,111.8
Payroll & employee benefits		4,300.1	4,331.6	3,991.1
Occupancy & other operating expenses		3,766.7	3,922.7	3,802.2
Franchised restaurants—occupancy expenses		1,230.3	1,139.7	1,058.1
Selling, general & administrative expenses		2,355.5	2,367.0	2,295.7
Impairment and other charges, net		6.0	1,670.3	134.2
Other operating (income) expense, net		(165.2)	(11.1)	69.1
<b>Total operating costs and expenses</b>		<b>17,079.5</b>	<b>18,907.6</b>	<b>16,462.2</b>
<b>Operating income</b>		<b>6,442.9</b>	<b>3,879.0</b>	<b>4,433.0</b>
Interest expense—net of capitalized interest of \$12.3, \$6.9 and \$5.4		522.6	410.1	401.9
Nonoperating (income) expense, net		(77.6)	(103.2)	(123.3)
Gain on sale of investment		(160.1)		
<b>Income from continuing operations before provision for income taxes</b>		<b>6,158.0</b>	<b>3,572.1</b>	<b>4,154.4</b>
Provision for income taxes		1,844.8	1,237.1	1,288.3
<b>Income from continuing operations</b>		<b>4,313.2</b>	<b>2,335.0</b>	<b>2,866.1</b>
Income from discontinued operations (net of taxes of \$34.5 and \$101.9)			60.1	678.1
Net income		<b>\$4,313.2</b>	<b>\$2,395.1</b>	<b>\$3,544.2</b>
<b>Per common share—basic:</b>				
Continuing operations		\$ 3.83	\$ 1.96	\$ 2.32
Discontinued operations			0.05	0.55
Net income		\$ 3.83	\$ 2.02	\$ 2.87
<b>Per common share—diluted:</b>				
Continuing operations		\$ 3.76	\$ 1.93	\$ 2.29
Discontinued operations			0.05	0.54
Net income		\$ 3.76	\$ 1.98	\$ 2.83
<b>Dividends declared per common share</b>		<b>\$ 1.625</b>	<b>\$ 1.50</b>	<b>\$ 1.00</b>
<b>Weighted-average shares outstanding—basic</b>		<b>1,126.6</b>	<b>1,188.3</b>	<b>1,234.0</b>
<b>Weighted-average shares outstanding—diluted</b>		<b>1,146.0</b>	<b>1,211.8</b>	<b>1,251.7</b>

Source: SEC 10-K, February 25, 2009.

debt for MCD is less than 6 percent for both short- and long-term debt, an increase in MCD's borrowing should not be cause for concern.

**Social Responsibility**

MCD views its Plan to Win strategy, composed of the 5 P's (people, products, place, price, and promotion) as fundamental to its business success and to becoming better rather than just bigger. This plan aims at delivering exceptional customer experiences by undertaking several initiatives focused on each of the five P's grounded in a set of the corporate values shown in Exhibit 7.

## EXHIBIT 6 MCD's Balance Sheet

PERIOD ENDING	31-Dec-08	31-Dec-07	31-Dec-06
<b>Assets</b>			\$2,136,400
<b>Current Assets</b>	\$2,063,400	\$1,981,300	—
Cash and Cash Equivalents	—	—	904,200
Short Term Investments	931,200	1,053,800	149,000
Net Receivables	111,500	125,300	435,700
Inventory	411,500	421,500	—
Other Current Assets	—	—	—
<b>Total Current Assets</b>	<b>3,517,600</b>	<b>3,581,900</b>	<b>3,625,300</b>
Long Term Investments	1,222,300	1,156,400	1,036,200
Property Plant and Equipment	20,254,500	20,984,700	20,845,700
Goodwill	2,237,400	2,301,300	2,209,200
Intangible Assets	—	—	—
Accumulated Amortization	—	—	—
Other Assets	1,229,700	1,367,400	1,307,400
Deferred Long Term Asset Charges	—	—	—
<b>Total Assets</b>	<b>28,461,500</b>	<b>29,391,700</b>	<b>29,023,800</b>
<b>Liabilities</b>			2,739,000
<b>Current Liabilities</b>	2,506,100	3,634,000	17,700
Accounts Payable	31,800	864,500	251,400
Short/Current Long Term Debt	—	—	—
Other Current Liabilities	—	—	—
<b>Total Current Liabilities</b>	<b>2,537,900</b>	<b>4,498,500</b>	<b>3,008,100</b>
Long Term Debt	10,186,000	7,310,000	8,416,500
Other Liabilities	1,410,100	1,342,500	1,074,900
Deferred Long Term Liability Charges	944,900	960,900	1,066,000
Minority Interest	—	—	—
Negative Goodwill	—	—	—
<b>Total Liabilities</b>	<b>15,078,900</b>	<b>14,111,900</b>	<b>13,565,500</b>
<b>Stockholders' Equity</b>			—
Misc. Stocks Options Warrants	—	—	—
Redeemable Preferred Stock	—	—	—
Preferred Stock	16,600	16,600	16,600
Common Stock	28,953,900	26,461,500	25,845,600
Retained Earnings	(20,289,400)	(16,762,400)	(13,552,200)
Treasury Stock	4,600,200	4,226,700	3,445,000
Capital Surplus	101,300	1,337,400	(296,700)
Other Stockholders' Equity	—	—	—
<b>Total Stockholders' Equity</b>	<b>13,382,600</b>	<b>15,279,800</b>	<b>15,458,300</b>
<b>Total Liabilities and SE</b>	<b>\$28,461,500</b>	<b>\$29,391,700</b>	<b>\$29,023,800</b>

Source: <http://finance.yahoo.com>.

## EXHIBIT 7 McDonald's Corporation's Values

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### We place the customer experience at the core of all we do

Our customers are the reason for our existence. We demonstrate our appreciation by providing them with high quality food and superior service, in a clean, welcoming environment, at a great value.

### We are committed to our people

We provide opportunity, nurture talent, develop leaders and reward achievement. We believe that a team of well-trained individuals with diverse backgrounds and experiences, working together in an environment that fosters respect and drives high levels of engagement, is essential to our continued success.

### We believe in the McDonald's system

McDonald's business model, depicted by the "three-legged stool" of owner/operators, suppliers, and company employees, is our foundation, and the balance of interests among the three groups is key.

### We operate our business ethically

Sound ethics is good business. At McDonald's, we hold ourselves and conduct our business to high standards of fairness, honesty, and integrity. We are individually accountable and collectively responsible.

### We give back to our communities

We take seriously the responsibilities that come with being a leader. We help our customers build better communities, support Ronald McDonald House Charities, and leverage our size, scope and resources to help make the world a better place.

### We grow our business profitably

McDonald's is a publicly traded company. As such, we work to provide sustained profitable growth for our shareholders. This requires a continuing focus on our customers and the health of our system.

### We strive continually to improve

We are a learning organization that aims to anticipate and respond to changing customer, employee and system needs through constant evolution and innovation.

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Source: <http://www.crmcdonalds.com>.

MCD has made significant changes to become a socially and environmentally friendly company. It has been recognized for its efforts in inclusive excellence with respect to employing and creating opportunities for minorities. MCD has been listed among the "top 40 companies" by *Black Enterprise Magazine* for 2005 through 2007. It established its first Global Environmental Commitment in 1989. Since then it has been actively seeking to reduce its carbon footprint by using recycled packaging. Additionally, Ronald McDonald's Foundations raise millions of dollars each year for children-centered causes in the community.

According to Skinner, MCD's CEO, "Corporate responsibility means many things to many people. At McDonald's, being a responsible company means living our values to enable us to serve food responsibly, and work toward a sustainable future." (MCD either does not have a written mission statement nor vision statement or these documents are not publicly available because I could not locate either of these at the time this case was written.)

### Competitors

The food service industry, also known as the restaurant industry, is large and lucrative with a market capitalization of \$104 billion and a price-to-earnings (P/E) ratio of 80.2. Yet it is highly fragmented with over 550,000 restaurants ranging from small local eateries to global giants like MCD and Yum! Brands, Inc. MCD towers over its direct competitors in the industry with a market cap of \$59.8 billion in May 2009. Yum! Brands, which has a market cap of only \$16.3 billion, and Burger King Holdings, Inc., whose market cap is \$2.46 billion, are second and third, respectively. Even though

Wendy's directly competes with MCD in this industry, Wendy's is currently owned by a private holding company, the Wendy's/Arby's Group. A brief summary of competitor financial highlights is provided in Exhibit 8.

#### Burger King (BKC)

Founded in Miami, Florida, in 1954 under the name "Insta Burger King" by James McLamore and David Edgerton, Burger King Corporation (BKC), a subsidiary of Burger King Holdings, Inc., owns or franchises about 11,500 restaurants in the United States and 70 foreign countries, including Canada, Europe, the Middle East, Africa, the Asia Pacific, and Latin America. Even though it is considered the second largest burger chain in the world, it ranks third in size in the food service industry. With a market capitalization of \$2.46 billion, revenues of \$2.55 billion, and 41,000 full-time employees, BKC trails behind McDonald's in several categories in the fast-food industry, including operating margins, earnings per share (EPS), and P/E ratio.

In addition to its famous "Whopper sandwich," BKC offers a variety of burgers, chicken sandwiches, breakfast items, and salads that compete directly with MCD. BKC, since the 1980s, has a long-standing contract with the Army and Air Force Exchange Service. As such, every major army and air force location worldwide has a Burger King restaurant on its premises.

#### Yum! Brands (YUM)

Yum! Brands, Inc., formerly known as TRICON Global Restaurants, Inc., was founded in 1997 and changed its name to Yum! Brands, Inc. in 2002. Yum! operates over 36,000 restaurants in 110 countries. Yum! owns prominent restaurant chains, such as Kentucky Fried Chicken (KFC), Pizza Hut, Taco Bell, Long John Silver's, and A&W. Headquartered in Louisville, Kentucky, it has a market cap of \$15.56 billion, has 50,400 employees as of May 7, 2009, and is the closest competitor in size to McDonald's. Headquartered in Louisville, Kentucky, Yum! is considered the second largest in the global fast-food service industry. Offering more than one brand at a single location has helped Yum! increase traffic at a single real estate location. Each of its flagship brands also dominates the segment. For example, Taco Bell holds 60% of the Mexican fast-food segment, KFC holds a respectable 45% of the fast-food chicken business, and Pizza Hut leads the pizza business with a 15% market share in the pizza business segment. In addition to seeking growth through acquisition of prominent brands, since its restructuring in 2006, Yum! has been pursuing aggressive expansion overseas by expanding at the rate of 700 new locations for the seventh consecutive year since 1999. In China alone, it has more than 2,600 restaurants, accounting for 15% of its revenues.

**EXHIBIT 8 McDonald's versus Rivals, Year-end 2008**  
(B = \$billion; M = \$million)

	MCD	YUM	BKC	(Fast) Food Service Industry	SBUX	Specialty Eateries Industry
Market Cap	61.17 B	15.57 B	2.45 B	161.69 M	10.1 B	1.64 B
Employees	400,000	50,400	41,000	5,700	176,000	2,140
Revenue	22.99 B	11.08 B	2.55 B	403.14 M	10.04 B	1.31 B
Gross Margin	37.09%	24.53%	33.13%	21.51%	54.24%	32.2%
Net Income	4.35 B	928 M	192 M	N/A	88 M	N/A
EPS	3.827	1.914	1.402	0.09	0.119	0.12
P/E	14.35	17.65	13.01	17.91	114.79	22.33

MCD = McDonald's Corporation

BKC = Burger King Holdings, Inc.

YUM = Yum! Brands, Inc.

SBUX = Starbucks

Source: Based on <http://finance.yahoo.com>.

### Wendy's (WEN)

Founded in 1969, based in Dublin, Ohio, and operating over 6,600 restaurants, Wendy's International, Inc., owns 1,400 of the 6,600 restaurants. With 44,000 employees in 2007, Wendy's ranks fourth in the industry, behind McDonald's, Yum!, and Burger King. The company is well known for its unique square single, double, or triple made-to-order burgers and fries, and alternative menu items, such as baked potato, chili, and salads. Its new low-priced menus directly compete for market share with MCD. It holds a unique position in the industry as an old-fashioned eating place in the fast-food business and was recognized in 1986 as the most favorite quality brand by *QSR Magazine* for the second year in a row and earned first place for customer satisfaction in the "limited service restaurants" category in that year's American Customer Satisfaction Index survey. With revenues of \$2,450 million in 2007, Wendy's currently operates as a subsidiary of the Wendy's/Arby's Group, a private company.

### Starbucks Corporation (SBX)

Even though Starbucks is no direct competition for MCD's core business, MCD is now in the fighting ring with Starbucks for the specialty coffee niche. Therefore it is important to view Starbucks as a new direct competitor. Starbucks was founded in 1985 by Howard Schultz, who recently came out of retirement to serve as chairman, CEO, and president. The company is usually grouped with the high-priced, high-margins specialty eateries industry. Starbucks' annual revenues are \$10.04 billion, less than half of MCD's. Starbucks' gross margins at 54.24 percent are 17 percent points higher than McDonald's. With 176,000 employees and strong brand recognition, Starbucks is seen as a leader in the specialty eateries industry.

### External Threats

Because of its global reach and brand recognition, MCD continues to face significant threats to its aggressive growth strategy at home, one of which is the growing awareness among the medical and scientific community as well as the public of the direct relationship between diet and health. A joint research study recently conducted at the University of California, Berkeley, and Columbia University and published in March 2009 concluded that the presence of a fast-food restaurant within 500 feet of a school is associated with at least a 5.2 percent increase in the obesity rate in that school, suggesting significant health benefits of banning fast-food restaurants close to schools if communities are interested in fighting the growing epidemic of obesity among young adolescents in America.

MCD continues to encounter lawsuits brought about around the world by activists and irate parents of children less than 18 years of age. In 1990, in the *McLibel Trial*, also known as *McDonald's Restaurants v. Morris & Steel*, activists from a small group known as London Greenpeace with no affiliation with the Greenpeace organization printed and distributed information under the title, "What's wrong with McDonald's?" In that printed information that was widely circulated in London, they criticized MCD's environmental, health, and labor record. The corporation wrote to the group demanding them to retract and apologize, but when the two key activists refused to back down, MCD sued them for libel. It turned out to be not only one of the longest cases in British civil law, but it also turned out to be a public relations nightmare for MCD. A documentary film capturing this saga continues to be shown in several countries, including the United States.

MCD's premises continue to draw antiglobalization activists from around the world. In 1999, French activist José Bové vandalized a half-built McDonald's to protest against the introduction of fast food in the region. As recently as 2009, activists vandalized MCD's restaurants during the G-20 summit in protest of the poverty and income inequalities brought about by globalization.

The documentary film, *Super Size Me*, which argued that MCD's menu was contributing to the obesity epidemic and that the company provided no nutritional information about its products, caught MCD executive's attention quickly. Within six weeks after the film's debut, MCD eliminated the supersize option from its meal options.

In April 2006, the global activist organization Greenpeace alleged that MCD, as a client of the agricultural behemoth Cargill, was contributing to the destruction of the Amazon rain forest in Brazil and the invasion of the indigenous people's lands when it bought chickens fed with Brazilian soya. Furthermore, global activists argue that MCD's operations overburden scarce drinking water supply away from the poor local communities by diverting it to the frivolous production of supplies to support MCD.

Unfavorable changes on the sociopolitical, legal, and environmental fronts at home and overseas as well as currency rates may adversely affect MCD without prior notice. Cost of supplies may

increase cutting into MCD's gross margins as is evident from its income statement (Exhibit 8). Total operating costs and expenses increased rose from about \$16.5 billion in 2006 to \$18.9 billion in 2007. Foreign currency translation losses displayed in Exhibit 1 show the extent of damage that global companies like MCD encounter due to the uncertainties in the global environment that no one has control over. In February 2009, MCD cut prices of its popular menu items in China by as much as 40 percent to reverse declining sales.

### Conclusion

Success today is no guarantee for success tomorrow. However, McDonald's added 40 restaurants in India in 2008 and another 25 in 2009. Although people in India are predominantly Hindu and revere the cow, thus eating no beef, they love McDonald's, especially Chicken McNuggets, which were first introduced in India in May 2009. MCD's vegetable patties also are a big hit now in India.

For the second quarter, which ended June 30, 2009, MCD had positive global comparable sales in every area of the world, as well as higher revenues, operating income, and earnings per share compared with the prior year. "We're driving results by staying focused on our global business strategy, the Plan to Win," said Chief Executive Officer Jim Skinner. "As consumers find themselves more cash-strapped and time-challenged, they continue to count on McDonald's for value, convenience, and variety across our menu." MCD's second quarter 2009 results included global comparable sales up 4.8% with the United States up 3.5%, Europe up 6.9%, and Asia/Pacific, Middle East and Africa up 4.4% McDonald's Europe delivered strong second quarter comparable sales led by performance in the U.K., France, and Russia. In Asia/Pacific, Middle East, and Africa (APMEA), Australia led the segment's second quarter operating income increase of 34% in constant currencies.

Exhibit 9 provides mid-year 2009 MCD financials:

**EXHIBIT 9 MCD Financial Highlights, Second Quarter 2009**  
(dollars in millions, except per share data)

	Quarter ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Revenues	\$5,647.2	\$6,075.3	\$10,724.6	\$11,690.1
Operating income	1,681.5	1,654.2	3,081.9	3,117.0
Net income	1,093.7	1,190.5	2,073.2	2,136.6
Earnings per share	0.98	1.04	1.85	1.85

## ASSURANCE OF LEARNING EXERCISES

### Assurance of Learning Exercise 1A



#### Gathering Strategy Information

##### Purpose

The purpose of this exercise is to get you familiar with strategy terms introduced and defined in Chapter 1. Let's apply these terms to McDonald's Corporation (stock symbol = MCD).

##### Instructions

- Step 1** Go to [www.mcdonalds.com](http://www.mcdonalds.com), which is McDonald's Web site. Click on the word Search. Then type in the words *Annual Report*. Then print the 2009 McDonald's *Annual Report*. This document may be 100 pages, so you may want to print it in your college library or order the report directly from McDonald's as indicated on the Web site. The *Annual Report* contains excellent information for developing a list of internal strengths and weaknesses for MCD.
- Step 2** Go to your college library and make a copy of Standard & Poor's Industry Surveys for the restaurant industry. This document will contain excellent information for developing a list of external opportunities and threats facing MCD.
- Step 3** Go to the [www.finance.yahoo.com](http://www.finance.yahoo.com) Web site. Enter MCD. Note the wealth of information on McDonald's that may be obtained by clicking any item along the left column. Click on Competitors down the left column. Then print out the resultant tables and information. Note that McDonald's two major competitors are Yum! Brands, Inc. and Burger King Holdings.
- Step 4** Using the Cohesion Case, the [www.finance.yahoo.com](http://www.finance.yahoo.com) information, the 2009 *Annual Report*, and the Industry Survey document, on a separate sheet of paper list what you consider to be MCD's three major strengths, three major weaknesses, three major opportunities, and three major threats. Each factor listed for this exercise must include a %, #, \$, or ratio to reveal some quantified fact or trend. These factors provide the underlying basis for a strategic plan because a firm strives to take advantage of strengths, improve weaknesses, avoid threats, and capitalize on opportunities.
- Step 5** Through class discussion, compare your lists of external and internal factors to those developed by other students and add to your lists of factors. Keep this information for use in later exercises at the end of other chapters.
- Step 6** Be mindful that whatever case company is assigned to your team of students this semester, you can start to update the information on your company by following the steps just listed for any publicly-held firm.

### Assurance of Learning Exercise 1B

#### Strategic Planning for My University

##### Purpose

External and internal factors are the underlying bases of strategies formulated and implemented by organizations. Your college or university faces numerous external opportunities/threats and has many internal strengths/weaknesses. The purpose of this exercise is to illustrate the process of identifying critical external and internal factors.

### Assurance of Learning Exercise 3C

#### Developing an EFE Matrix for My University

##### Purpose

More colleges and universities are embarking on the strategic-management process. Institutions are consciously and systematically identifying and evaluating external opportunities and threats facing higher education in your state, the nation, and the world.

##### Instructions

- Step 1** Join with two other individuals in class and jointly prepare an EFE Matrix for your institution.
- Step 2** Go to the board and record your total weighted score in a column that includes the scores of all three-person teams participating. Put your initials after your score to identify it as your team's.
- Step 3** Which team viewed your college's strategies most positively? Which team viewed your college's strategies most negatively? Discuss the nature of the differences.

### Assurance of Learning Exercise 3D

#### Developing a Competitive Profile Matrix for McDonald's Corporation



##### Purpose

Monitoring competitors' performance and strategies is a key aspect of an external audit. This exercise is designed to give you practice evaluating the competitive position of organizations in a given industry and assimilating that information in the form of a Competitive Profile Matrix.

##### Instructions

- Step 1** Gather your information from Assurance of Learning Exercise 1A. Also, turn back to the Cohesion Case and review the section on competitors (pages 33–35).
- Step 2** On a separate sheet of paper, prepare a Competitive Profile Matrix that includes McDonald's, Burger King Holdings, and Yum! Brands, Inc.
- Step 3** Turn in your Competitive Profile Matrix for a classwork grade.

### Assurance of Learning Exercise 3E

#### Developing a Competitive Profile Matrix for My University

##### Purpose

Your college or university competes with all other educational institutions in the world, especially those in your own state. State funds, students, faculty, staff, endowments, gifts, and federal funds are areas of competitiveness. Other areas include athletic programs, dorm life, academic reputation, location, and career services. The purpose of this exercise is to give you practice thinking competitively about the business of education in your state.

##### Instructions

- Step 1** Identify two colleges or universities in your state that compete directly with your institution for students. Interview several persons, perhaps classmates, who are aware of particular strengths and weaknesses of those universities. Record information about the two competing universities.