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Financial analysis mcdonalds corporation

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**Introduction**

McDonalds is one of the world most famous fast food restaurants providing food to millions of people a day. The Headquarters in the United States began really small, with a simple burger and it has grown to a full menu with a wide variety of choices. Currently McDonald name and its brand serve approximately 64 million customers each day in over 333,000 local restaurant locations, in about 19 countries.

The first McDonald's restaurant was opened in San Bernardino, California, in 1948 by two brothers, Maurice and Richard McDonald. They sold their first hamburgers for 15 cents each. This concept of fast food, which by the way eliminated the need for wait staff, worked out so well that it became a franchise. In 1955, salesman Ray Kroc entered into a partnership with the McDonald brothers and helped build the corporation Kroc bought the company from Maurice and Richard McDonald in 1961.﻿ The next year, the chain's popularity increased when the company introduced the famous golden arches as its logo. In 1963, the company introduced corporate mascot Ronald McDonald, and McDonald's as we know it was born.

Their aim is to provide an excellent service to all the customers with a global strategy which is called Plan to Win. This strategy is focused on exceptional customer experience including their values with people, products, places, price, and promotions (marketing mix strategy) and committing to improving their business continuously and elevating customer satisfaction.

McDonald’s started in the stock exchange with 100 shares totaling at 2250 USD. Their success put them up to 4.7 million stocks today. Franchising has brought them revenues in sales as well as renting. Currently 80% of McDonalds are franchises around the world with franchising cost around 45000 USD per license.

**Performance Analysis**

All companies are obligated by law to submit their financial statements at the end of each year. This helps analysts to observe the cause and effect relationships in the financial data provided by the company. This data has been taken from the financial statement McDonald’s submitted on their website and others.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Vertical Analysis income statement in millions** |  |  |  |  |  |
| **Years** | **2012** | **2011** | **2010** | **2009** | **2008** |
| Sales by Company restaurants | 67.48 | 67.74 | 67.43 | 67.97 | 70.40 |
| Revenues from franchised | 141.88 | 32.26 | 32.57 | 32.03 | 29.60 |
| **Total Revenues** | **100** | **100** | **100** | **100** | **100** |
| Food and paper | 22.92 | 22.84 | 22.02 | 22.77 | 23.75 |
| Payroll | 17.09 | 17.06 | 17.12 | 17.44 | 18.28 |
| Occupancy | 15.22 | 15.05 | 15.11 | 15.42 | 16.01 |
| Franchised restaurants | 5.54 | 5.49 | 5.72 | 5.72 | 5.23 |
| Selling, admin expenses | 8.91 | 8.86 | 9.69 | 9.82 | 10.01 |
| Impairment | 0.03 | -0.01 | 0.12 | -0.27 | 0.03 |
| Other | -0.91 | -0.86 | -0.82 | -0.98 | -0.70 |
| **Total op costs** | **68.79** | **68.42** | **68.96** | **69.92** | **72.61** |
| **Op income** | **31.21** | **31.58** | **31.04** | **30.08** | **27.39** |
| Interest | 1.87 | 1.82 | 1.87 | 2.08 | 2.22 |
| Nonoperating income | 0.03 | 0.09 | 0.09 | -0.11 | -0.33 |
| **Income before income taxes** | **29.31** | **29.67** | **29.08** | **28.52** | **26.18** |
| Provision for tax | 9.48 | 9.29 | 8.53 | 8.51 | 7.84 |
| **Net Income** | **19.82** | **20.38** | **20.55** | **20.01** | **18.34** |

|  |  |  |
| --- | --- | --- |
| **Ratios** | **McDonald’s** | **Yum Brands**  |
| Return on total assets | 12.55% | 15.82 |
| Gross margin ratio | 15.23 | 16.03 |
| Profit margin ratio | 27.47% | 11.65% |
| Current Ratio | 3.27 | 0.55 |
| Acid-test Ratio | 3.05 | 0.36 |
| Inventory turnover | 133.05 | 35.32 |
| Total asset turnover | 0.46 | 1.36 |
| Debt-to-equity ratio | 4.35 | 7.33 |
| Debt ratio | 0.81 | 0.88 |

Return on assets

= Net income ÷ Average total assets

Debt ratio = Total liabilities / Total assets

Profit margin ratio = Net income ÷ Net sales

Current Ratio

= Current Assets ÷ Current Liabilities

Acid-test Ratio

= Quick Assets ÷ Current Liabilities

Gross margin ratio = (Net Sales – COGS) ÷ Net Sales

Inventory Turnover

= OGS ÷ Average Merchandise Inventory

Total asset turnover

= Net Sales ÷ Average Total Assets

Debt-to-equity ratio

= Total liabilities ÷ Total equity

|  |  |
| --- | --- |
| Cash |                    7,686 |
| Short Term Investment |                         - |
| Account Receivable |                    1,299 |
| Inventory |                       100 |
| Other |                         - |
| Current Assets |                  9,643 |
| Net PPE |                  23,118 |
| Goodwill |                    2,516 |
| Other |                         - |
| Total Assets |                37,939 |
|  |  |
| Accounts Payable |                       875 |
| Accrued Expense |                    1,612 |
| Accrued Taxes |                       464 |
| Notes Payable |  |
| LT Debt - Current |                         - |
| Other |                         - |
| Total Current Liabilities |                    9,643 |
|  |  |
| LT Debt |                  24,122 |
| Other |                         - |
| Total Liabilities |                30,851 |
|  |  |
| Common Stock |                    6,550 |
| Treasury |                (41,177) |
| Retained Earnings |                  44,595 |
| Other |                         - |
| Total Equity |                  7,088 |
| Total Equity & Liability |  37,939 |

**Current Situation**

McDonald’s current situation is very stable. With a huge number of restaurants all around the world you can easily say that McDonalds is doing very well. But in the year 2002 when McDonalds faced their first loss after over 35 years in business. Being a strong company did not helped them, rather they planned a strategy to get out of this by electing a new CEO named Cantalupo, the new CEO, focused on the problem and introduced a new strategy known as the ‘plan to win’ strategy. With his new job the company achieved customer satisfaction and improved operating of their current franchises as well as standardizing the future franchising. This strategy really helped McDonalds to achieve a share price of around 80 thousand dollars in the year 2010. The board of directors made this strategy the core plan because it did so well.

Investors now take McDonalds as a safe place and put their money in shares considering that McDonalds will not see another problem like this if they continue using the same policies. This can be seen in the revenues of McDonalds. Their revenues have increased from 20,895 million dollars in 2006 to 24,075 million dollars in 2010 and are still increasing.

They introduced a new line of product called McCafé drink lines and other different types of coffees and teas. This took McDonald’s in cafeteria market and is rivalling Starbucks in USA. This has resulted to the to have a stable place in the market and stocks.

**Target Market**

The main target customer for McDonald's includes parents with young children, young children, business customers, and teenagers. I believe the most obvious marketing for McDonald's its towards children and the parents of young children. Ronald McDonald was first introduced in 1963 and marked the beginning of their focus on young children as a critical part of their business. Parents like to visit McDonald's because it is a treat for the kids, and the kids enjoy the cartoon like atmosphere. McDonald's also targets business customers as a part of their core business. Business customers may stop during the workday and can count on fast service, and consistently good food. Another major target of McDonald's marketing is to teens. Teens find the value menu especially appealing and McDonald's markets their restaurants as a cool place to meet with their friends and to work.

**Main competitors**

**Burger King**

Burger King is probably the most direct competitor for McDonald's, with its Whopper challenging the Big Mac as they call it burger war. Burger King recorded over $1.65 billion in revenue for the full year ending 2018.

As of the end of 2018, Burger King had more than 17,000 locations in more than 100 countries, with 11 million daily visitors worldwide.﻿ Independent franchisees own nearly all of those restaurants.﻿ Burger King became private after it was purchased by 3G Capital in 2010 for $3.3 billion. Shareholders received $24 per share in cash. Burger King is owned by parent company Restaurant Brands International, which also owns Tim Hortons and Popeyes.

**Wendy’s**

Wendy’s is a fast-food restaurant chain with more than 6,700 locations worldwide. ﻿ Like Burger King and MacDonald's, Wendy's focuses on burgers, fries, and other classic American food.

**Subway**

Subway is the largest restaurant chain in the world in terms of size, with nearly 41,000 locations in nearly 100 countries. ﻿ All Subway locations are owned by franchisees, of which there are more than 21,000. The company’s menu consists primarily of sandwiches and salads.

**Starbucks**

Starbucks is the world’s largest coffeehouse chain. As of November 2018, the company operated more than 31,000 stores in 76 countries, including more than 15,000 in the United States. None of the company’s U.S. locations are franchises. Starbucks serves coffee, espresso, cappuccino, tea, pastries, sandwiches, and other foods. The chain markets itself as a high-quality option at a high price.

**Strategic recommendation**

Even though McDonalds are the world’s largest and most successful restaurant chain, there are some more important aspects which they should consider in order to gain more competitive advantages.

Have an international approach - When they are starting into other countries it is important to know the culture and the customer preferences in those countries. They can make customer surveys to better know about the different wants of customers before they start the franchise. Without providing the standardized food menus, they have to serve different menus following with the different requirements in those countries. Also they should develop strategies to ensure the standards of McDonald’s foods which always need to differentiate them with their competitors.

Aggressive innovations - Provide more and more innovative products to being unique from their rivals all around the world. It is important to invest in new innovative foods which can help with the health and nutritious requirements of people. These innovative foods should be identical for countries based on their social living conditions and customer needs.

Control over franchiser - To ensure the quality and the McDonalds standards of cooking food, selling, and serving foods in different franchisee restaurants, they need to be properly controlled franchisees’ activities. Even though those franchisees should adopt their products and layout design of their restaurants according to the customer and environmental requirements of those countries, there should be a common standardized operation strategy for all the restaurants to keep the corporate vision of McDonalds.

Social networking – Nowadays all the organizations, especially fast-food restaurants and retailing companies are very involved with social media to promote their products and services. But it looks that McDonalds still uses traditional marketing means and strategies. To attract more teen demographics, they should develop some social networking strategies especially with twitter and Facebook.

**Conclusion**

McDonalds is rapidly growing in size and as well as in profitability. The reason behind their success in business is the excellence of their corporate strategy and business modules as we spoke earlier. Strategic management is an essential part of an organization which provides objectives to be achieved and also provide guidelines to achieve those objectives and targets effectively and efficiently. This is the key of any organization no matter of their purpose on existing in the market. Throughout this report it was address the nature, competitors, functions of business strategies, mission and objectives, formulation of strategies to achieve those targets in business, McDonald’s has understand well how significant to have a unique and well established strategy for their operations, especially to gain more and more competitive advantages in fast-food restaurant and franchising industry. Overall, we can conclude that McDonald’s is optimistically more likely to have a better future performance and better market prospects.