



**IQRA National University**

# **Art & Design Department**

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Subject: CONSUMER BEHAVIOR

## **McDonald**

Macdonald is the largest fast food chain in the world. Macdonald is the most famous fast food chain that people knowing in worldwide.

Some entrepreneurs choose to buy into franchises. In doing so, they acquire the right to adopt a brand's image and sell that brand's goods in return for paying fees on a regular basis to the franchiser. One of the most well-recognized franchise companies is the fast-food chain McDonald's, which has more than 31,000 restaurants worldwide, according to the company's website. A McDonald's franchisee has the right to sell McDonald's products for 20 years, receiving training and the use of the company's logo and menu.

McDonald's has been around since 1955, and since the brand's franchises operate all over the world, it's fair to say that you'd be hard-pressed to find many people who haven't heard of McDonald's, or who don't recognize the Golden Arches logo. McDonald's is not only well-established but it already has millions of customers who are loyal to the brand and associate McDonald's with a take-away lunch or a family get-together meal, for instance. So, as the Bob Brooke Communications website suggests, key benefits of this kind of franchise are the ability for the franchisee to tap into brand identification and the loyalty of the customer base.

As a huge multinational company, McDonald's has already learned a fair bit about its market, what the public wants and what does and does not work. McDonald's maintains a coordinated marketing policy, as described on its website, and a franchisee buys into this knowledge when they begin trading as a McDonald's outlet. Again, this presents the franchisee with a sense of security, since McDonald's can put plenty of money behind any market research it does, and eliminates the need for a franchisee to do expensive research.

Benefits. Franchise organizations eliminate a great deal of the risk that most small business owners face, since franchises come with financing options, building and training assistance, marketing assistance and detailed methodologies that have been proven successful on the front line for years.

Essentially, McDonald's makes money by leveraging its product, fast food, to franchisees who have to lease properties, often at large mark-ups, that are owned by McDonald's. As reported in their 2018 10-K, 35,085 of the 37,855 restaurants were franchised with McDonald's operating the remaining 2,770 restaurants. So, approximately 93% of total capacity are franchises which is still below McDonald's long-term goal of 95%.

The advantage of this model is that the revenue stream (rent and royalty income received from franchisees) is far more stable, and most importantly, predictable while the operating costs are measurably lower allowing for an easier path to profitability. McDonald's, because it has control over the land and long-term leases, can leverage its market position to negotiate deals. As has been noted by analysts, this is akin to a subscription, where the subscriber (the franchisee) pays a fixed amount each month.

According to industry analysts, McDonald's keeps about 82% of the revenue generated by franchisees, compared with only about 16% of the revenue from its company-operated locations, which is further trimmed by the costs incurred in operating these units. This would explain their pursuit of getting to the 95% franchise mark.