Overview of McDonalds

McDonald's is the world's largest restaurant chain by revenue, serving over 69 million customers daily in 120 countries across 38,695 outlets as of 2019. Although McDonald's is best known for its hamburgers, cheeseburgers and french fries, they feature chicken products, breakfast items, soft drinks, milkshakes, wraps, and desserts. In response to changing consumer tastes and a negative backlash because of the unhealthiness of their food, the company has added to its menu salads, fish, smoothies, and fruit. The McDonald's Corporation revenues come from the rent, royalties, and fees paid by the franchisees, as well as sales in company-operated restaurants.

McDonald's restaurants employed more than 205,000 people worldwide as of the end of 2019. The number of employees has steadily decreased over the past five years (Figure 1) despite the fact that the number of franchises has increased (Figure 2). In 2016 there were 36,525 restaurants and 375,000 employees and at the end of 2019 there were 38,695 restaurants and 205,000 employees.

Figure 1

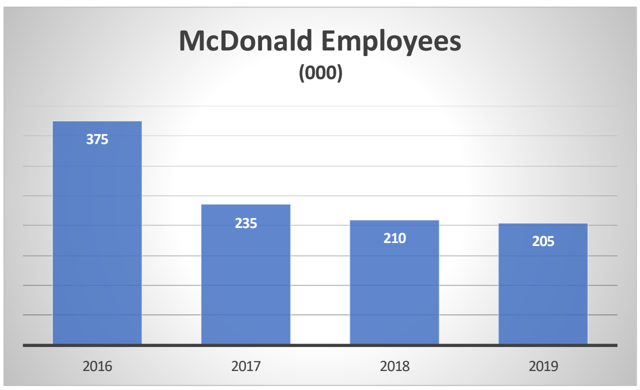
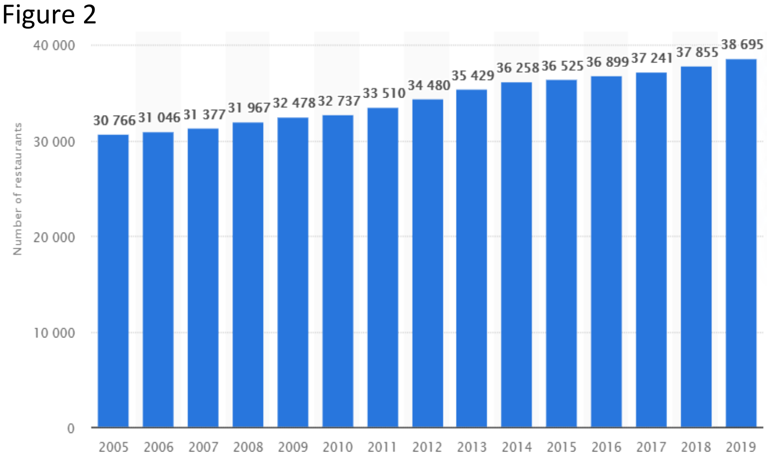
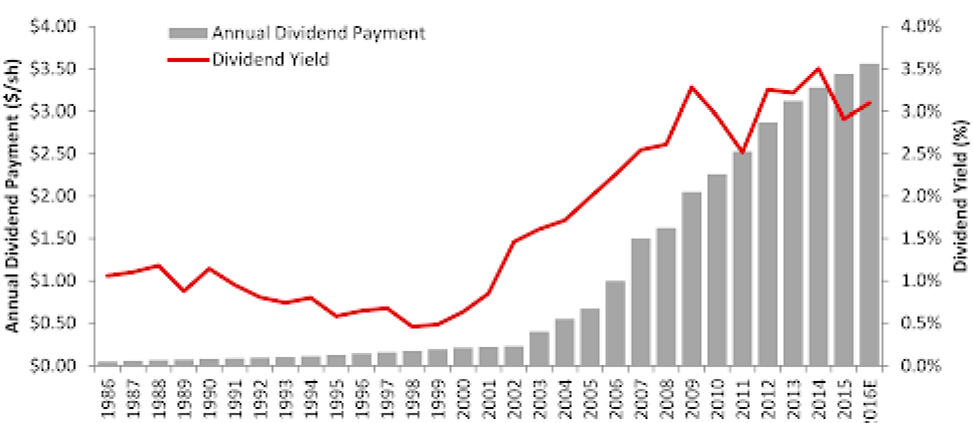


Figure 2



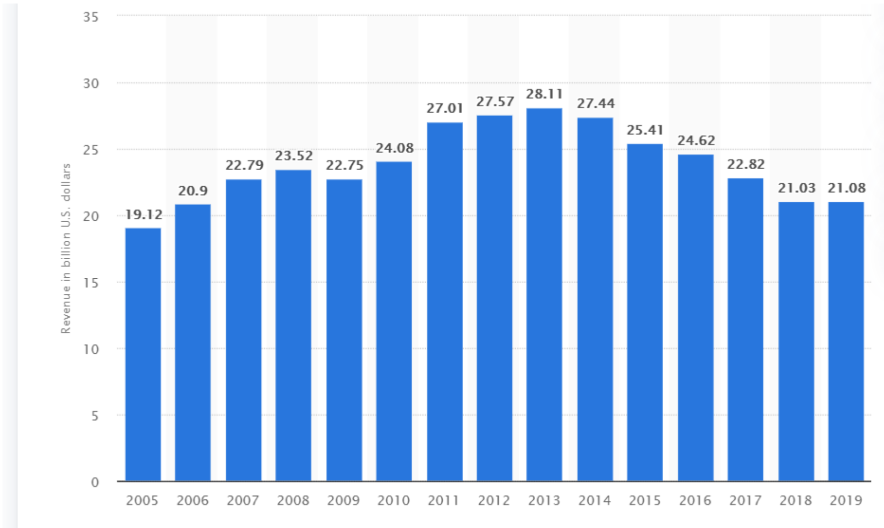
McDonald's has increased shareholder dividends for 25 consecutive years (Figure 3), making it one of the S&P 500 Dividend Aristocrats. The company is ranked 131st on the Fortune 500 of the largest United States corporations by revenue. McDonald's annual revenue has exceeded $20 billion every year since 2005 reaching a peak of $28 billion in 2013 (Figure 4). At the end of 2019 McDonald's revenue was $21 billion. Despite the lower revenue during the past seven years McDonald's remains quite profitable.

Figure 3



Revenue of the McDonald's Corporation worldwide from 2005 to 2019 (in billion US dollars)

Figure 4



Their net profit margin increased each quarter from 2016 until the first quarter of 2020; the current net profit margin is approximately 25%. The $100 billion in sales generated by McDonald's company-owned and franchise restaurants in 2019 accounts for almost 4% of the estimated $2.5 trillion global restaurant industry. Shares of McDonald's, which has a market value of $177 billion, have risen more than 16% during 2020.

Impact of Pandemic

The global pandemic has had an adverse impact on US and global sales. Sales were down as much as 24% in the Spring of 2020. Fast-food companies like McDonald's have been recovering from the coronavirus pandemic faster than the broader restaurant industry, thanks to their convenient drive-thrus and cheap prices. Sales are beginning to improve in the US while international sales still lag behind targets. McDonald's global same-store sales fell 2.2% during 3Q20 but turned positive in the US when quarterly same-store US sales rose 4.6%. In the U.S., its same-store sales growth was boosted by more orders being made as part of a group, which drives up the value of each check. It's also attracting more dinner customers, but overall traffic remains negative.

Outside of its home market, McDonald's is bouncing back slower after seeing steeper sales declines in the first two quarters of 2020. Harsher lockdown restrictions meant many of its restaurants had to close their doors entirely, and its international locations are less likely to have drive-thru lanes. Its international operated markets segment, which includes France and the United Kingdom, saw same-store sales fall 4.4%. Australia reported positive same-store sales growth, but Germany and Spain were among the markets that saw declines. In the international developmental licensed markets segment, which includes China and Brazil, same-store sales shrank by 10.1%. Worldwide, same-store sales for 3Q20 shrank by 2.2%, albeit much better than the 2Q20 plunge of 23.9%.

Growth Plans

In 2017 and again in 2019, McDonald's leaders defined and then expanded upon a growth plan for the company and their restaurants. In September 2018, the Company announced several organizational changes to its global business structure. These changes were designed to continue the Company's efforts toward efficiently driving growth as a better McDonald's through six key principles. These include:

1. ***Retaining existing customers*** - focusing on areas where it already has a strong foothold in the Informal Eating Out (IEO) category, including family occasions and food-led breakfast.
2. ***Regaining customers who visit less often*** - recommitting to areas of historic strength, namely quality, taste, quality, and convenience of its product - food.
3. ***Converting casual to committed customers*** - building stronger relationships with customers so they visit more often, by elevating and leveraging the McCafé coffee brand and enhancing snack and treat offerings, including its popular ice cream desserts.
4. ***Experience of the Future ("EOTF")*****:** restaurant modernization and technological upgrades to transform the restaurant service experience and enhance customer's perception of the brand.
5. ***Digital*****:** Evolve the technology platform, expand choices for how customers order, pay and are served through additional functionality on its global mobile app, self-order kiosks, and technologies that enable conveniences such as table service and curb-side pick-up.
6. ***Delivery*****:** Expand the number of restaurants offering delivery (it is now available in over half of the global system). Be proactive in keeping up with the newer generations who prefer home delivery over pickup when it comes to expanding its brand and business.

Ice Cream

One customer loyalty and revenue enhancing opportunity is ice cream. The McFlurry has been the most popular dessert choice since it was introduced 25 years ago. It has been listed among the best fast food desserts by food industry magazines (Thrillist & The Daily Meal). A tasty dessert is a good way to increase the size of the average order and increase customer loyalty. But there's a problem. Quite frequently when a customer orders an ice cream dessert, the ice cream machine is broken. It's a problem nearly every McDonald's customer has likely experienced once or twice or more. When the ice cream machine is down, it doesn't just impact one dessert, but most of the dessert options are not available to customers. Without a functioning ice cream machine, there are no ice cream cones, no sundaes, and none of the popular McFlurries. The problem has gotten so bad that frustrated customers are turning to social media to complain. In 2016, it was the most common service-related complaint to McDonald's on Twitter, and if anything, the problem has only gotten worse since then.

The fast food giant has been serving up some form of ice cream since its beginnings in 1940. Considering that soft serve ice cream is used in more than 60 percent of its dessert menu, a broken ice cream machine is a real problem. So why then would McDonald's allow their ice cream machines to seemingly be broken so often?

Apparently, there's a perfectly good reason that McDonald's ice cream machines seem to be broken almost more often than they're working. The soft serve machines must go through a laborious cleaning cycle that can last hours. The process isn't simply wiping down the machine, but involves an 11-step process that includes using a sanitizer which is a warm water mix to clean seven removable parts. There are also two irremovable parts that must be scrubbed for at least 60 seconds. Then the entire outside of the machine is wiped down with a sanitized towel.

During this labor-intensive process, the machines are unable to produce any ice cream. If the crew is busy serving customers, cooking food, or cleaning other parts of the restaurant, the machine sits unassembled and inoperable. Also, if they've just cleaned and reassembled the machine, some employees claim there's a good chance they'll tell customers it's down, just to avoid going through the process again.

The soft serve machines also go through a four-hour heat cleaning cycle every night to get rid of any bacteria lingering on the inside. Some employees start that process early to get a head start on closing up. In addition, many McDonald's are now open 24-hours, meaning there's really no time to clean the machine without disappointing a few ice cream customers. The machines obviously create a lot of extra work for the crew. For a crew, which is typically minimally paid, unpleasant tasks such as cleaning a dirty ice cream machine contribute to the high turnover rates, 130% to 150% per year, found in the fast-food industry. While McDonald's is trying to find a good replacement for the soft serve machines, a new and easier to maintain machine is not a solution in the near future. As well, even a new machine will require maintenance.

To make matters worse, recently a 24-year old software engineer, Rashiq Zahid, built an app by fiddling with the McDonald's API. The app, called McBroken, identifies which McDonald's restaurants have broken ice cream machines. Every minute the app sends ice cream orders to all McDonald restaurants in a targeted area. If the order cannot be processed because the ice cream machine is broken, the app records the response. Customers can use the app to identify at which restaurants they can purchase ice cream. At the same time the app tracks the broken ice cream machine rates in cities across the country. The news is not good. On a recent day, the apps statistics showed that 9.3 percent of McDonald's ice cream machines in the US were broken; 20 percent in Seattle, 19.6 percent in New York, 13.9 percent in Washington, and 13.6 in Phoenix.

Recently, Bethany Tate Cornell joined McDonald's as its new Senior Vice-President, Chief Learning and Development Officer. Bethany recognizes that to achieve the corporate revenue and customer experience goals that the ice cream situation needs to be addressed. She realizes that purchasing new ice cream machines for all franchises is not a feasible option at the present time. Bethany and her team prepared a request for a proposal (RFP) for help fixing the ice cream problem. The RFP seeks a plan of action to help McDonald's understand the problem, recommendations and an action plan for reducing the frequency of "broken" ice cream machines.

Case Study Guidelines

For the purposes of the business case study, you are a member of a consulting firm that successfully responded to the RFP and was hired by McDonalds to advise and guide them about fixing their ice cream machine problems. Purchasing new ice cream machines is not currently an option. Another solution to address the problem in the near-term is required. Bethany's team has provided you with a dataset of about 1,600 restaurants worldwide and facts about the restaurants' sales, staff, employee turnover, and ice cream performance. Use this data to gain some insights into potential recommendations and actions.

Write a 1,500 word case study describing how you would advise and help Bethany Tate Cornell and McDonald's to take actions that will "fix" the ice cream machine problem. What leadership and employee training might be needed? What is the impact on recruiting and hiring? How does the high turnover rate impact the problem? Are there new work rules that must be established? If so, what are they and how are these to be effectively communicated? How will questions and conflicts about any new policy and procedures be managed? What changes to performance management practices might be needed? What additional data might be gathered and analyzed to understand the problem from the restaurant manager's perspective and challenges to implementing a solution? What might be done to address these challenges?

What tradeoffs need to be evaluated? How might individual staff, franchise owners, work crews, and the overall organization be involved to understand and fix the problem? How could successful change be measured? What might indicate that the actions taken have addressed the most important problems needing to be addressed? What might a realistic practical business solution look like?

Your business case study must be unique and an original work of your own creation. The document submitted must not exceed 1,500 words, not including references. The solution offered should be solely of your own writing and ideas. You may cite research, or other ideas by including references for any external sources used.

Evidence that this business case study has quoted material or ideas selected without proper reference or written by third parties will result in application rejection. This assignment is designed to engage and reflect your understanding of models of psychology, business, science, analytical methods, and your professional development goals in the service of applied problem solving.

In addition, create a **short video** (no more than 5 minutes in length) of yourself addressing two topics:

- An executive summary of your approach to the case study and recommendations for a course of action. The approach and recommendations should be your presentation to McDonalds - in a business format and context.
- Explain your career goals and interests as they relate to the approach presented in the case study.

You will find detailed instructions for uploading your written case study and the URL link to your video in the online application. (When you are logged in to the online application, click "Psychology" in the list of links on the left, then scroll down the page to "Industrial/Organizational Applicants Only".)

*Please note, this case study is for Fall 2021 applications only.