



# Research on the Business Model & Advertisement of McDonald's

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## ABSTRACT

COVID 19 has a huge impact on all walks of life. If companies want to grasp the nettle, they must have excellent conditions or be able to adjust policies on time. All companies that are not affected by the economic crisis must have their own advantages. One of the giants in the restaurant industry - McDonald's, will be analyzed in detail in this article. Researching a well-known brand can be a challenge. But most of the previous studies focused on McDonald's business strategy and basic publicity model. This article will analyze McDonald's advertising communication through the 6 factors in "Why things catch on", trigger, stories, emotion, practical value, social currency, and public. Besides, the special profit model and development path of McDonald's will be explained. The data used in the research comes from McDonald's balance sheet, income statement, and analysis of McDonald's stock price in recent years. Our findings indicate that McDonald's unique operating model, such as making money from "rent", the "tricky part" on McDonald's take-out bags, and McDonald's ability to "read customers' hearts", have accomplished McDonald's Empire what we see today.

**Keywords:** *Business model, advertisement, McDonald's, real estate, and COVID 19*

## 1. INTRODUCTION

During the last 3 years, with the COVID 19 ravaged the world, catering, travel, and other industries have been impacted a lot. Many big brands were even on the verge of bankruptcy. Looking back on the economic turmoil in recent years, the business model has become the "secret tool" of many large enterprises. Inspired by the book "Why Things Catch On?", written by Johan Berger, the research will use six factors as a basic model to analyze great advertisements. Although many studies were studied its advertisements before, this research result will analyze them from a refreshing perspective, which is to connect the advertisement with another model. Through the retrieval and reference of relevant literature, the research was enlightened by those opinions. Those six factors are the trigger, stories, emotion, practical value, social currency, and public, and the research will explain their role in the spreading of McDonald's. The business model of the McDonald's will also be mentioned in the research which will focus on the "revenue part", such as how McDonald's uses real estate to increase income. In this study, we aimed to elucidate the advertisements and business model in McDonald's which can provide other

brands an example to consult when they are meeting depression in the future.

## 2. THE ADVERTISEMENT FOR MCDONALD'S

1940 is a historical year, the first McDonald's was born in this year, by McDonald's brothers in their hometown, California. Ray Kroc in 1954 proved to be a turning point for the company and McDonald's began franchising their restaurant outside of their hometown as well. Ray is the founder of McDonald's empire. In 1958, McDonald's was sold 100 million hamburgers. So why does McDonald's become so popular?

Let's think about the main characteristic of McDonald's, which is fast and cheap. How do those two characteristics attract customers? How does the brand spread? The research will use 6 factors that were introduced in Why Things Catch On? The first one is social currency. "Social currency" means how can a product increases people's opinion of a person. For example, many people like to buy luxury goods even though they know those products are useless, but those products can let others change opinions on a person. On a Chinese street in 1990, if a person could afford a

McDonald's burger, it not only indicated that he was a fashionista, but it could also indicate that he had returned from abroad. In addition, McDonald's is a kind of innovation, like a "strange thing" for people. "Remarkable things are defined as unusual, extraordinary, or worthy of notice or attention. Something can be remarkable because it is novel, surprising, extreme, or just plain interesting." [1] This part of the book can explain why McDonald's can catch the eyes of customers. In the 1950s, if a person wants to eat out, he or she needs to have a long time waiting for food. However, because of the assembly line used by McDonald's, it only takes 30 seconds to finish a burger. It undoubtedly became an innovation during that time.

The second factor is triggers. Triggers, as their face meaning, mean a point that can let customers connect it with the brand or product. "One key factor is how frequently the stimulus occurs. Hot chocolate would also have fitted well with Kit Kat, and the sweet beverage might have even complimented the chocolate bar's flavor better than coffee. But coffee is a more effective trigger because people think about and see it much more

frequently." [2] McDonald's is spread all over in United State. Even I live in a small town in Pennsylvania and the nearest KFC is 8 miles away from my home. However, there are over 3 McDonald's in the area that is 5 miles away from me. The logo of McDonald's is brief, which is an "M". The color usually is yellow and red. When people see it, can easily remember it, and the vertical rod of McDonald's is usually very high, which is easy to see. People can recall McDonald's when they see red and yellow.

The third factor is called emotion. Emotion is also an important tool for a brand to spread. To mobilize customers' emotions is a great way to let customers remember and recall the brand. Many children like to eat at McDonald's, and McDonald's has an area for children to play. It is a nice memory for people to remember. People have a subconscious idea that when they need to care about a strange child, they will probably take him or her to eat at McDonald's. People think that children will like them because of the playing area and some "kid meal".

From: 01/02/1970 To: 02/24/2022 Zoom: 3M YTD 1Y 2Y 5Y 10Y 20Y All

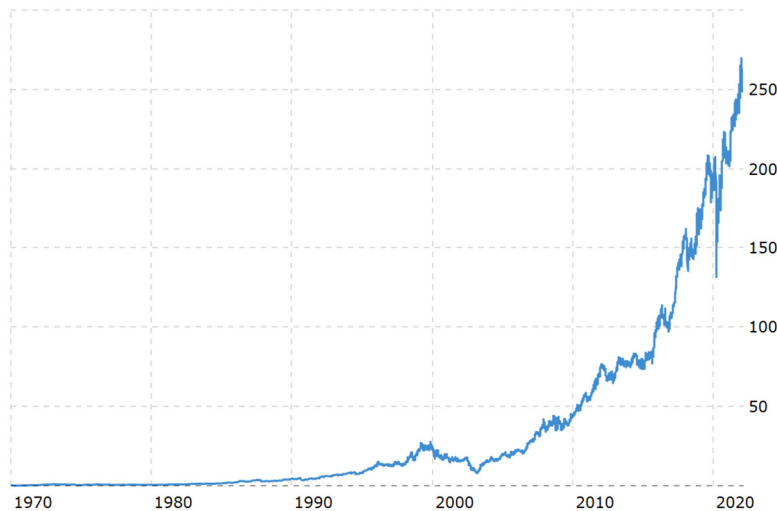


Figure 1 :Srock price trending from1970-2020

Data in this photo shows the trend of McDonald's stock market. Even during depressions, McDonald's still didn't impact. Why does this happen? McDonald's has a clear target position that they are "cheap". One of the main problems of depression is that the unemployment rate will increase and many people reduce their income. Therefore, in people's minds, they should buy some "cheap food". Because McDonald's is a "cost-effective" thing in many people's minds. Therefore, they would like to consume McDonald's even during the depression.

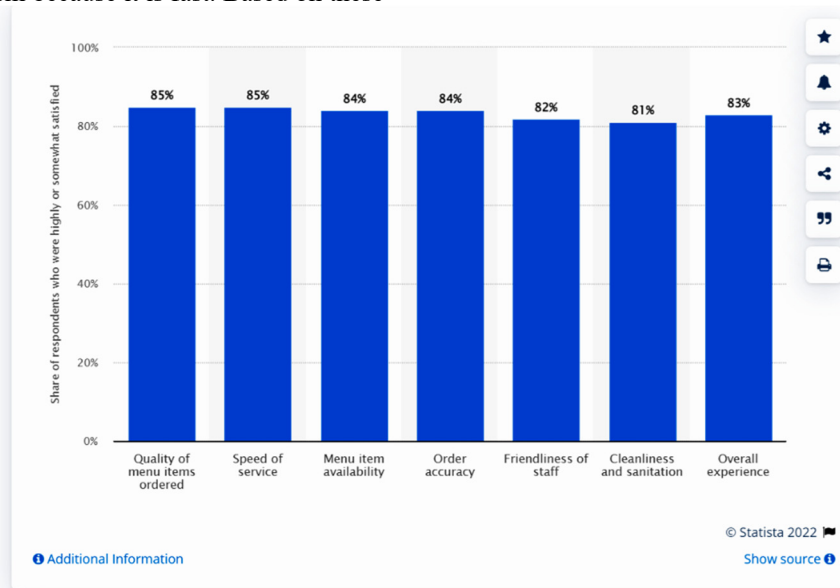
The fourth principle is public. Public means that let the brand or product" show to people. When the product can be seen in a high frequency, people will remember that. "Making something more observable makes it easier

to imitate. Thus, a key factor in driving products to catch on is public visibility. If something is built to show, it's built to grow." [3] People would like to mimic others unconsciously. The took-out bag for McDonald's is also an interesting design. The bag has no ties, people can only catch it on hand, and because the bag was made of paper, it is a very fashionable bag. If a worker buys McDonald's like breakfast and takes it to the office, all people around him can see that bag. It is an efficient way to let others see the brand. So, the next time an officer wants to buy breakfast and bring it to work, he or she might opt for a McDonald's.

Fifth is the practical value, which is the mean value of McDonald's. A very interesting fact is that when the

depression comes, the revenue of McDonald's increases. McDonald's is not an example of tasty food, but it is cheap. When a student wants to buy a burger at university without a meal plan, a burger usually costs more than 9 dollars. Compared to McDonald's we can see that McDonald's is cheap. Furthermore, the pace of life for young people has quickened, and more and more people have less time at lunch. Therefore, McDonald's becomes a good choice for them because it is fast. Based on these

two advantages, McDonald's can become more and more popular. Also, social welfare provided by McDonald's. Because the target customers of McDonald's are a lower class, which means that the demand is the first-floor demand of Maslow's Hierarchy of Needs. McDonald's provides free restrooms for people to use. In this case, people will increase the frequency to get into McDonald's stores.



**Figure 2 :** Customers' satisfied from various perspectives.

The data above can indicate the reason why McDonald's can develop well. The percentage of each factor is similar. Those factors are kinds of advantages of McDonald's, such as the "speed of service", the cleanliness, and sanitation. The standard of McDonald's is specific, even the host company made a policy that the restroom should be clean every 21 minutes. In the last century, it is an innovation that regulated stores in this way.

The last factor is stories of McDonald's. To spread the development of McDonald's, a movie has been created. The movie called The Founder, lets people have a deeper understanding of this brand, which also lets people have more interest to consume in McDonald's. Those six factors can explain why McDonald's become so famous.

### 3. THE BUSINESS MODEL OF MCDONALD'S

How does McDonald's make money? Are they mainly getting income by selling burgers? The answer is no. They are making money usually from rent. Data indicates that in 2006, the net income is 76000million and 64% of them were from rent. When a franchise wants to join McDonald's. they need to pay a high rent. They need to pay the total fee of about a 1-2million dollars and at least pay 45000\$. The standard of being a franchise is

very high. Also, many franchises from other companies may only need to pay 6-8% to the host company. However, franchises in McDonald's need to pay 8%-15%. When the franchise cannot achieve the goal, McDonald's can still get the rent. So, it is a good way to protect McDonald's during the depression. During the depression, the number of stores directly controlled by McDonald's reduced. The number of franchises store increased. There are 600 new stores have been invested in 2008. Also, when the real estate discount during the depression, McDonald's would buy new land. As we can see the fee is high, so why still do many people invest in McDonald's? The answer is safe. Franchises cannot change the rules of McDonald's. McDonald's will provide a book to the franchise which full of rules and processes about how to make a good store. For example, there is a supply chain to buy chicken and potatoes and Franchises cannot change it. Franchises cannot control McDonald's. Because of this, the risk becomes low. The average revenue is 2.7 million per year of one store. The average net income is 154000\$. Let's think that the location was chosen by McDonald's, and the taste will not change. So, it is a good investment. Those data can indicate that McDonald's attracts investors because of the stable revenue, the "rent" and protect McDonald's from economic environmental impact.

#### 4. CONCLUSION

The research mainly focuses on the advertisements and business models of McDonald's, related to the book *Why things Catch on?* and financial data. Under the theory of Maslow's Hierarchy of Needs and 6 factors of advertisement, the success of McDonald's seems much easier to understand. Covid 19 is a huge attack on all companies, having a nice countermeasure becomes a priority to them. The real estate part of McDonald's is also different from other real estate companies. McDonald's is a brand that can always bring some innovations to us. Even people know that real estate is a big part of McDonald's, the fact is still different from the imagination. T different from other regular real estate companies. In the future, McDonald's will become stronger because it continues to adjust its products and make them more suitable for society. If a company wants to continue growing, it must follow the change in society. However, in this research, the data is not enough because the commercial territory is too big for McDonald's, the situation in various places and countries are different. It is a mess to analyze them in one research. In the future, I think we will combine all markets situations in different continents and compare them to find how to change the policies based on each situation. This research can help many entrepreneurs to consult if they have a problem with advertisements.

#### ACKNOWLEDGMENTS

The idea of this research paper was enlightened by Professor Johan Berger, the author of the book *Why Things Catch On*. Six factors are useful not only for analyzing a successful advertisement but also meaningful to make a better advertisement for other brands. Moreover, Professor Ma, which taught at the Minzu University of China, indicates that a successful brand should be suitable for society. McDonald's has different menus between China and the United States. In China, it adds more traditional Chinese food aimed to attract more customers. No matter which companies, they should set up by following the local situations and policies.

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