



# IST

Fallstudienreihe

Innovation, Servicedienstleistungen und  
Technologie

Case Studies on

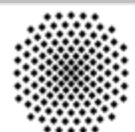
Innovation, Services and Technology

**McDonald's**

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## **McDonald's Germany**

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## 1. Introduction

The fast food industry is characterized by high competitive pressure. In order to survive in the long run, fast food restaurants try to provide better service to their customers with both new product and service innovations as well as with process innovations.

The following case study examines both the innovative capability of McDonald's Germany as well as the entire industry by means of the market-based view and the resource-based view.

## 2. Case study

McDonald's is among the world's best known and most successful fast food restaurants. In Germany alone, the company was able to increase its number of subsidiaries from 931 in 1998 to 1.264 in 2005. In this process, 72% of the restaurants are run by independent, middle-class businessmen, the so-called franchisees. Franchisees are given the right to operate their own restaurant under the brand name McDonald's, to use McDonald's' know-how and to benefit from national advertising and favorable terms and conditions for the purchase of goods. In return, they commit themselves to fulfill the guidelines and standards of the franchisor. McDonald's demands, for example, strict adherence to quality standards.<sup>1</sup> In 2005, the company celebrated its 50th anniversary and with a total annual net turnover of around 2.42 bn € and 848 million guests, it achieved its best results ever in Germany.<sup>2</sup>

As with many other fast food chains, McDonald's worldwide success story is based on the fact that people nowadays have less and less time. This manifests itself in many life situations. Thus, most employees can hardly afford an extensive lunch break where they go into a restaurant, wait for their food for half an hour and then have another half hour to comfortably enjoy their lunch. Prior

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<sup>1</sup> McDonalds (2008a), for URL see bibliography

<sup>2</sup> McDonalds (2008b), for URL see bibliography

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to the dissemination of fast food restaurants in European inner cities, the choice of the employees was either to go into a restaurant and to eat in a comfortable atmosphere or to bring lunch from home. In addition, besides a great deal of time, going out to eat in a restaurant on a regular basis cost a pretty penny. Due to restaurants such as McDonald's, employees were and still are offered an alternative where food is delivered in a fast and inexpensive manner.<sup>3</sup>

Many companies such as Burger King, Pret A – a British sandwich chain focusing solely on the British market, or Subway ventured onto the market of fast food restaurants. Meanwhile, fast food restaurants are at home anywhere in the world. However, the companies represent the same offer and quality all over the world. A Chinese Big Mac has to taste exactly like a German Big Mac. McDonald's itself does not produce any ingredients such as cheese but buys its goods from renowned suppliers like Coca Cola, Develey, Agrarfrost, McCain, Hochland or Vita. However, the best quality and maximum delivery reliability are decisive supplier criteria.<sup>4</sup>

In the light of increasing obesity in the population, many fast food restaurants have expanded their existing range of products offering more and more healthy food. Thus, McDonald's is also offering more Chicken burger or salads in addition to their classic burgers with beef. Customers are also offered more choices when putting together their meals. When back in the early days a maxi meal only consisted of a beverage, French fries and a burger, the customer nowadays can freely combine his set meal and choose, for example, a salad as a side dish instead of French fries.<sup>5</sup> In Germany, many other fast food chains jumped on this "*health bandwagon*" advertising fresh and healthy food. This is why Subway uses the advertising slogan „Subway – eat fresh“ with which they market their individually combinable sandwiches<sup>6</sup> Fast food companies in Germany are facing competition from small Chinese restaurants, whose Asian cuisine is considered very healthy and sold at a low price in many places.

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<sup>3</sup> Kim, Mauborgne (2005), p. 96

<sup>4</sup> McDonald's (2008c), for URL see bibliography

<sup>5</sup> McDonald's (2008d), for URL see bibliography

<sup>6</sup> Subway (2008), for URL see bibliography

Furthermore, new restaurant chains such as Vapiano, an experience-dining chain, where fresh pizza, pasta or salads are being prepared in front of the customer, are pressing onto the market. The Italian cuisine with on-site home made pasta and pizza is the center of attention here and no dish is more expensive than 8.50 Euros. Besides food, the fast food restaurant also provides a bar, where customers can enjoy a glass of wine or a beer as well as a cup of coffee.<sup>7</sup>

Besides the expansion of the menu, a lot has happened at McDonald's also. More and more subsidiaries, for example, launch the so-called McCafé, where the customer can have a cup of coffee and a desert after his meal.

### **3. Task formulation**

After studying technically-oriented business administration, you have inherited a large amount of money and are now considering whether to fulfill your long-cherished dream of opening up a separate branch of McDonald's in Germany.

#### **3.1 Market-based View**

In order to be able to make a decision, analyze the industry by means of the market-based view first. In doing so, please specifically focus on the importance of innovation in this industry, i. e. whether the industry produces a large number of innovations, what type of innovations they are and by whom they are to be expected. From the results, define the company's strategy to be followed for McDonald's Germany. Finally, reflect on the market-based view and its critical significance, before revealing your partial results.

#### **3.2 Resource-based View**

Please add the resource-based view to your analysis. In doing so, you do not have to explain all elements of the lowest level of resource typology in detail but to choose the three most remarkable ones. When analyzing the resource-based

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<sup>7</sup> Vapiano (2008), for URL see bibliography

view you should point out which resources, etc. are important for McDonalds Germany today, which are required for future markets and how they can be generated. In this regard you should also explain which types of retirements can be generated using resources, etc. Zu welchem Ergebnis würden Sie diesmal kommen? What would be your result this time?

### **3.3 Description of desision-making process**

Please bundle your results and give a short final outline on whether you are going to open a McDonald's subsidiary in Germany or not.

### **3.4 Developing an innovation idea**

Develop one additional meaningful innovation idea in your restaurant, without destroying the identity of McDonald's irrespective of the conclusion you came to in question 3. Please explain what the term „innovation“ means to you as well as different areas of innovation in your McDonald's restaurant and outline a specific innovation idea.

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## **4.2 Further literature on the theoretical background of the case study**

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### **4.2.2 Literature references on the resource-based view**

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