

Small Business Marketing Strategy Based on McDonald's

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Abstract

As individuals decide to open or pursue a small business, an important issue is how to acquire sales or increase monthly revenues coming into the business. The success rate for most business is usually stated to be in the 30%–50% range. Usually lack of monthly sales or revenue is a key reason for failure. Usually small businesses do not have a good plan on how to increase and maintain sales.

One good place to analyze small business and how to increase monthly sales and revenues is to look at successful franchises. One of the most successful franchises over time has been McDonald's. Important marketing insights can be gained by analyzing the concepts employed by McDonald's with regard to marketing and sales. McDonald's essentially uses a three level approach to marketing that increases and maintains monthly sales. Based on research of the McDonald's marketing approach, insight into successful techniques for increasing small business monthly revenues can be gained. In the last part of this paper, an analysis of McDonald's sales techniques will be used to help identify sales techniques potentially applicable to all small businesses.

Introduction

Today 70% – 80 % of McDonald’s 34,000 restaurant locations are franchise operated by independent operators/small business owners with the remaining stores serving as corporate stores. McDonald’s founder, Ray Kroc, decided he wanted McDonald’s to maintain quality control of their products while supporting franchisees with superior advertising and marketing of McDonald’s products. Hence, the plan for McDonald’s franchising was born (McDonald’s Corporation, 1988). McDonald’s corporation is able to offer marketing clout from name recognition supported by a superior advertising strategy that a lot of small private business owners are not aware of and/or would be envious of.

Private individuals who own small businesses quickly realize the importance of marketing and advertising to ensure revenue success. McDonald’s restaurants have a marketing strategy in place that has proven very successful and hence can serve as a general model for all small retail type businesses. Important marketing insights can be gained by analyzing the concepts employed by the McDonald’s Corporation and their franchisees that can be used in small business applications by numerous types of small business owners.

This paper will first explore and describe the three levels of Marketing found today at each individual McDonald’s restaurant. We will discuss what is involved at each level of McDonald’s advertising with all the associated expenses to implement the three levels. Finally, we will then discuss how portions of these 3 marketing levels could be applied to any small business’s marketing plan based on the McDonald’s strategy for success.

McDonald’s “National” Advertising Strategy – Level I

McDonald’s advertising fees or charges are directly tied to the individual store sales or revenues. Table I is an example that assumes the monthly revenues for a single McDonald’s restaurant to be approximately \$150,000.

TABLE I

“Monthly Fees” to McDonald’s for Restaurant – Based on Monthly Sales (Revenue) of \$150,000.00 Per Month

Estimated:	
Monthly Sales/Revenues	\$150,000.00
	X .10
Percent Rent Fee (Figuring 10%)	\$15,000.00
Service (Advertising Fee – 4%)	\$150,000.00
	X .04
	\$6,000.00

From Monthly Sales of \$150,000.00 franchisee pays \$15,000 + \$6,000.00 = \$21,000.00 to McDonald’s. Four percent is the monthly advertising fee – 2% for National Advertising and 2% for Regional Advertising.

Corporate McDonald’s will charge that individual store 4% of the \$150,000. Half of this 4% (2%) goes to McDonald’s national advertising. In this example 2% of the \$150,000 would be approximately \$3,000 which will go to a McDonald’s national advertising fund. Each individual McDonald’s restaurant across the nation will be charged or contribute 2% of their individual monthly store’s revenue for a national McDonald’s marketing campaign.

Regional McDonald’s across the nation elect a national committee of owner/franchisees who periodically meet at the McDonald’s Corporate Headquarters in Chicago to discuss how the monies collected (2%) will be distributed or spent. This national committee is a broad spectrum of owner/operators who will represent all other owners from their specific regions of McDonald’s across the U.S. This level of advertising will fund all the individual store’s advertising materials for display in the individual stores as well as the “national” radio and TV advertising to be funded. This 2% fee pays for the banners, posters, menu board advertisement and happy meal displays seen by customers in the individual McDonald’s restaurants. It can also be used to establish national ties with events like the Olympics, auto racing teams and other businesses like Disney or Dream Works that have similar customers as McDonald’s. Two percent of the stores monthly revenue sounds high and may not be appropriate for all small businesses as we will discuss later. A generic profit and loss statement for a well-managed McDonald’s is shown in Table II. This table shows expected monthly revenues, expenses (that includes McDonald’s 4% advertising fee) and profits. Table III is a general summary of Level I marketing.

TABLE II

McDONALD’S MONTHLY BOTTOM LINE (APPROXIMATE)

\$150,000.00	Per Month Sales
- 15,000.00	Percent Rent (At 10%)
- 6,000.00	Advertising (At 4%)
- 37,000.00	Labor ((25%)
- 45,000.00	Food (30%)
- 7,500.00	Utilities (5%)
- <u>7,500.00</u>	Misc. (Insurance, Repairs, Uniforms)
\$31,500.00	----- Profit Before Mortgage
- 10,000.00	Mortgage Payment
\$21,500.00	----- Bottom Line

TABLE III

McDonald’s 1st Level – “National” Advertising/Marketing

- Corporate McDonald’s charges each individual McDonald’s restaurant 2% of the monthly sales/revenue

- Committee of owners from across U.S. plus McDonald's personnel plan corporate level national advertising
- Establish partnerships with other national businesses like Disney/Dreamworks/Coke
- 1st Level puts out yearly/quarterly planning calendar to regions

McDonald's "Regional" Advertising Strategy – Level II

The 2nd level or strategy of advertising at McDonald's is more of a "regional" approach to marketing. Here the other 2% of the 4% advertising fee, charged by McDonald's, goes into a regional co-op of owners account. For example, in North Texas such a regional co-op would consist of the owners from the various McDonald's restaurants in the north and central Texas area. This group of owners will meet approximately once a month, in conjunction with a hired advertising agency that supports the owners, to discuss and plan a marketing approach for the regional McDonald's franchisees. These regional owners have the power to determine how their 2% of monthly revenues will be spent in the specific region of McDonald's. It could be "more" TV or radio advertising in conjunction or in addition to the national advertising fund in level one. This 2% for regional advertising may include sponsorship of professional teams, organizations or events in their specific region of the country. This regional 2% can be used to add new products the region wants to advertise or support above and beyond what is being done at the national level. Level II advertising can be very similar to Level I, but with more emphasis on the "regional" franchise preferences versus the "national" outlook. Table IV shows a summary of Level II.

TABLE IV

McDonald's 2nd Level – "Regional" Advertising/Marketing

- Corporate McDonald's charges each individual McDonald's restaurant a second 2% of the monthly sales/revenue
- Co-op of all Regional owners in various parts of country
- Co-op meets once a month with hired advertising agency to plan regional advertising
- Additional advertising above and beyond National Level put in place

McDonald's "Local" Advertising Strategy –Level III

The 3rd and final level of advertising for McDonald's marketing/advertising is found at the individual McDonald's restaurants. This is the individual franchisee spending whatever money they desire from their individual store revenues to promote that specific store's success. This is anything above and beyond the 4% spent in Levels I and II. This is probably the most important level of marketing of a McDonald's restaurant. Here is where the individual franchisee gets directly involved with their community and individual store customers.

Individual franchisees or store owners can purchase additional banners, real-estate type signs and/or advertising coupons in local newspapers, use radio stations or TV channels as they desire but at their own expense and not part of the 4% already being spent. In our research we concluded it was apparent that the outside marquees and road signs at McDonald's can serve as a huge marketing tool at the local level, advertising specific specials/deals at that particular McDonald's restaurant. It is not uncommon for customers to simply order, "Give me whatever the outside banner or marquee sign has listed on sale." "Two for the price of One" coupons, 99 cent Happy Meal Nights, Happy Hour specials and Family Night Deals are all examples of the ways the individual franchisee can improve sales/revenues based on local appeal.

At this 3rd level the McDonald's franchisee/owner may also try to get directly involved with local schools, churches, youth sporting groups, senior groups and other organizations in the community. Here the owners/ franchisees get out, get to know customers and get involved in the community. Good personal relations with customers lead to more new customers and more revenue for the individual store. Franchisees who work these level 3 options usually show the largest monthly sales increases. Table V summarizes Level 4 operations.

TABLE V

McDonald's 3rd "Local" Level Marketing – Individual Stores

- Individual Store Expense
- Use Marquee/Banners on store front/windows
- Specials!!!
 - 2 for 1 coupons
 - Happy Meal Nights
 - 99 cent Deals; 2 for 1 Coupons; Happy Meal Specials
- Getting Involved with Community and customers – local schools, churches, youth sporting groups, seniors and other community organizations

The 3 Levels of McDonald's Marketing Applied to other Small Business

When looking over the 3 levels of Marketing used at McDonald's, it becomes apparent that much of this is appropriate to any small business working in a retail environment. Likewise, there are some areas that are probably only applicable to larger, national, corporations such as McDonald's. When we look specifically at smaller local or regional types of businesses, we see that Level I of national advertising is probably not appropriate for everyone. Hence, it is probably more appropriate for the focus of this paper to be in the Level 2 and 3 areas used at McDonald's for making recommendations for other types of small businesses.

As earlier stated, Level 2 at McDonald's involved 2% of monthly revenues going to regional advertising/marketing. It is possible that at 2% of monthly revenues or sales, most small businesses probably could not afford this large of an expense. Possibly one percent or even half a percent of monthly revenue may be more realistic. Level 2 at McDonald's is also where funds are consolidated in a regional pool for advertising. It would make sense for small businesses to likewise pool funds with similar types of businesses. For example, various family restaurants could pool funds to purchase advertising. Occasionally roadside billboards can be seen with various retail businesses listed or sharing space. Buying advertising in bulk or co-op-form makes good sense for small businesses and saves on expenses. Small businesses in a region or town could form co-ops of owners in their specific industry type and advertise together on radio, TV, newspapers etc. as dictated by the amount of funds they are able to pool. Local Chambers of Commerce could also serve as a focal point for this type of effort.

As mentioned earlier, a third level of advertising at McDonald's involves individual store owners/franchisees spending their own funds on whatever local advertising they decide to invest in. This is probably the single most important form of advertising/marketing for all small businesses. This is also where one can see numerous small businesses making little or no effort, which can result in little or no success when trying to increase sales or revenues.

Small businesses, based on McDonald's success, need to promote local specials. Simple banners and signs on the establishment will bring in customers. The outside lighted marquees, found at numerous McDonald's are hugely successful if they are correctly used to promote specials. Small businesses can and should promote their business with lighted marquees and/or banners on their property to attract and alert customers of ongoing specials.

Getting involved with community churches, senior organizations, schools and events are other proven methods to drive up sales at McDonald's and should be used by all businesses. These methods are usually cheaper than advertising on radio and TV and usually more successful. Successful small business owners who put in the time and effort to work in the community are usually highly successful in increasing monthly revenue. Surveys we have conducted in this study indicate 60% - 70% of customers of restaurants, 1) read signs, banners and marquees on businesses and 2) are looking for good deals. McDonald's in recent national publications has indicated they are well aware of these types of facts and also are finding the younger customers want fresher, healthier foods that are well priced. Hence one of McDonald's latest new products introduced is the Chicken McWrap (Bloomberg Businessweek, July 8–July 14, 2013, p. 44). All small businesses on limited advertising budgets should at a minimum get involved in the community and place sales banners outside of their businesses to attract customers and increase monthly sales.

Conclusion

Increasing monthly sales or revenues for any business is not easy and involves a variety of techniques to accomplish their mission. In this paper, we looked specifically at the three levels of advertising or marketing used by McDonald's to increase monthly revenues and made recommendations based on the McDonald's strategies, that may be appropriate to all small businesses. Level I was a national level of advertising used by McDonald's that probably is not

appropriate for all small businesses. In Level II we looked at regional co-ops of McDonald's franchisees or owners who pooled 2% of their individual McDonald's restaurant monthly sales/revenues to advertise as a group in a region of the country. We concluded this co-op concept may be possible for other types of small businesses. They could possibly advertise together on radio, TV, or in local newspapers. Using a local Chamber of Commerce to pool resources may work in some cases.

Finally, we stated that Level III of the McDonald's strategy was probably the most appropriate form of advertising/marketing for all small retail type businesses. Here we concluded that all small businesses on limited advertising budgets should at a minimum get involved with the community and place banners outside their businesses to attract customers. All businesses need to understand that marketing and advertising are just one piece of what it takes to attract and maintain customers. All businesses need to understand the quality of their products, service, pricing, and overall cleanliness of the business are equally important in increasing monthly revenues and could be areas to consider for future research.

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