



# Finance at McDonald's

## Careers at McDonald's



Customer Services



Marketing



Finance



Franchising



Stock Control



Recruitment & Training

## INTRODUCTION

Although the realm of accounting and finance has often been viewed as dull 'bean counting', in today's modern and competitive business environment, the finance department should be at the heart of any company, encompassing a variety of functions that go beyond its traditional financial reporting role.

While it is still a priority for accountants to ensure a company's financial statutory accounts meet legal requirements, dynamic companies such as McDonald's have shifted the focus of their accounting and finance function to additionally include the evaluation of past performance and appraisal of future opportunities, helping to ensure the company maximises its strategic capabilities.

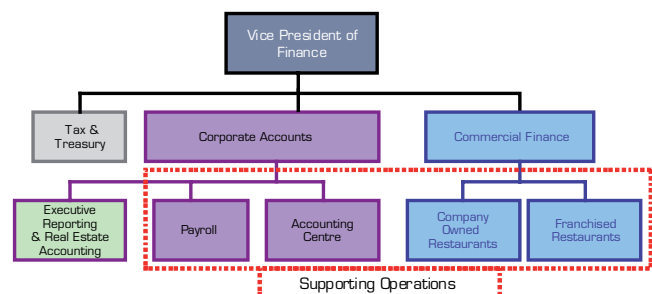
McDonald's Restaurants UK Limited, a wholly owned subsidiary of the U.S. parent company, opened its first UK restaurant in Woolwich in 1974. There are now 1,200 restaurants operating in the UK which, despite representing only 4% of the total number of McDonald's restaurants worldwide, contribute 7% of global profits, making the UK a very important financial market for McDonald's shareholders.

McDonald's understands the value of an integrated accounting and finance function, extending from the restaurant floor up to the board of directors. Each individual McDonald's restaurant is structured as an independent business, with restaurant management responsible for its financial performance, supported by the centralised Accounting & Finance department.

## DEPARTMENT STRUCTURE & FUNCTION

McDonald's Finance Department has two key areas of responsibility: financial reporting and management accounting. Although each of these functions has different priorities, working together ensures the best financial position for the company now and for the future.

### UK Accounting & Finance Departments





## ■ Financial Reporting

Financial reporting looks at historical performance with the primary responsibility of the Corporate Accounts department being the preparation of annual financial statements and reporting McDonald's monthly results to their parent company in the U.S. Several specific functions are in place in order to achieve these requirements:

- A centralised accounting centre is responsible for processing all accounts receivable and payable transactions, banking income, managing working capital and also for the maintenance of the fixed asset registers. The accounting centre provides day-to-day support to every McDonald's restaurant.
- Treasury and tax experts ensure compliance with tax laws and make sure the company has sufficient cash flow and appropriate finance in place in order to meet business needs.
- Payroll staff are responsible for the accounting and payment of wages to all 68,000 staff.

## ■ Management Accounting

The Commercial Finance department has a predominantly forward-looking focus, using management accounting to analyse past financial performance in order to project and improve future results and aid commercial decision-making. Key to the decision making process is information about our competitors and the market environment. This is provided by the McDonald's Business Strategy & Intelligence department which specialises in internal and external data collection, for example consumer research.

The Commercial Finance team helps define and measure several key targets known as Key Performance Indicators (KPIs) which McDonald's must achieve in order to succeed in its business strategy. Although these indicators are both financial and non-financial to ensure a balanced scorecard approach, the Commercial Finance team concentrates on the results of the financial KPIs. (See examples of these later on.)





## Profit from Restaurant Sales

Sales	100
Food & Paper	(30)
Labour	(30)
Advertising	(5)
Maintenance	(3)
Utilities	(3)
Other	(2)
<b>Profit</b>	<b>30</b>

## ■ HOW DOES MCDONALD'S MAKE A PROFIT?

McDonald's has two sources of profit:

- Sales made by company-owned restaurants
- Rental and royalty income from franchised restaurants.

## Restaurant Sales

McDonald's retains all of the profit earned by company-owned restaurants. An example Profit & Loss Statement for a restaurant is shown left and highlights how food and labour constitute a restaurant's largest costs.

In addition to variable costs, which increase or decrease depending on the level of sales, McDonald's also incurs costs that are largely fixed, for example utilities and advertising, which need to be paid for even before the restaurant makes any sales.

Increasing sales and controlling costs are fundamental to ensuring the profit of each restaurant is either maintained or increased.

## Franchise Rental & Royalty Income

The owner of each franchised restaurant, known as the franchisee, keeps all of the profit they make through sales after paying McDonald's a royalty for trading under the brand name and rent for operating in a McDonald's owned property.

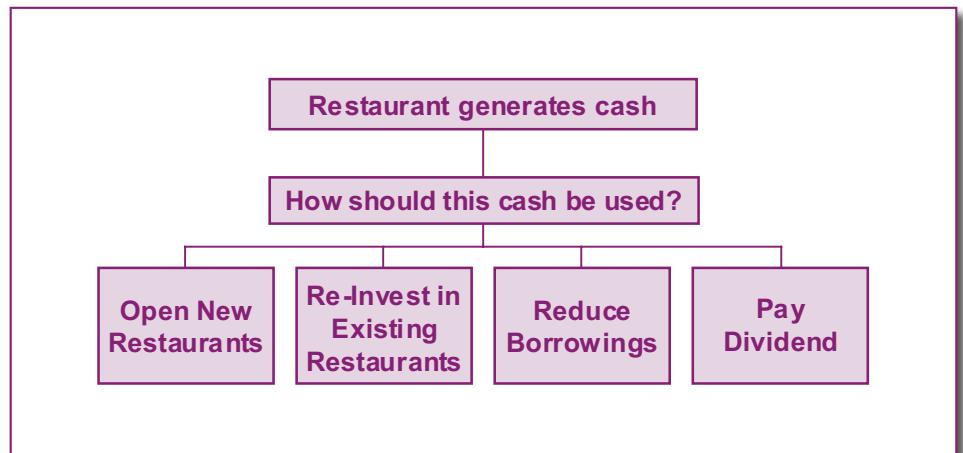
The benefit to McDonald's of operating franchised restaurants is that these restaurants guarantee a stream of income for McDonald's at a reduced level of risk while enabling the company to maintain a single brand presence. The risk to McDonald's is reduced because much of it is borne by the Franchisee. The Franchising Accounts team works closely with franchisees to provide the support they require to grow their profitability.





## ■ WHAT DOES MCDONALD'S DO WITH ITS PROFITS?

It is the responsibility of the senior management at McDonald's to reinvest the profits made by the company in order to generate future cash flows and returns for the shareholders. Whether this is done by building new restaurants, reinvesting in existing restaurants, paying off debt to reduce financing costs or paying a dividend to shareholders, their decisions will be based on financial appraisals carried out by the McDonald's Finance team.



The investment strategy of McDonald's UK has changed notably over the last decade. During the 1990s, McDonald's actively opened a large number of restaurants in order to grow market presence and increase market share. In recent years, however, McDonald's has taken a much more consolidated approach by focusing on fewer restaurant openings and instead investing in the re-imaging of its current estate. This investment strategy is intended to maintain the perception of McDonald's as a modern, progressive company and enable us to upgrade the customer experience and maintain market share in an ever-increasing competitive environment.

## Re-Imaging

Before:



After:





## FINANCIAL TARGETS & MEASURES

A key role of the McDonald's finance team is to help formulate relevant targets for the business and report actual performance against these targets. Analysing this data allows us to highlight areas where improvements might be made within the business. As with all McDonald's performance analysis, financial measures are considered alongside non-financial measures, and in consideration of long-term effects, so as to evaluate the activity from a balanced position.

Key Performance Indicators include:

### Comparable Sales Growth

Measuring increased demand and market expansion is done by comparing like-for-like sales, year-to-year, day-to-day. McDonald's breaks this down further into the comparable sales for different areas of the business so as to identify areas of sales growth opportunity and enable it to adapt quickly to changes in the market. For example, comparing:

- Sales at different times of the day
- Sales at restaurants located near each other
- Sales of specific products over time

### Profit Growth

Increasing the bottom line profit in the long-term through sales growth and improved efficiency in cost management.

### Return on Investment

McDonald's is evaluated by its shareholders on how well it invests its money. Shareholders require a certain level of return which means it is important for McDonald's to focus on making decisions that satisfy and maximise this return. For each project undertaken, the potential return on investment (the estimated profit return as a percentage of the initial capital investment) is an important measure used by management in considering the viability of the project.

There are specific targets for McDonald's larger capital investments, such as new restaurant openings which must achieve a 20% return over a 10 year period and re-imaging investments, which must achieve a 20% return over a 5 year period.

## Return on Investment

$$\text{ROI} = \frac{\text{Annual Profit}}{\text{£ Investment}}$$

e.g.

If McDonald's pay £15,000 for a shake machine and the restaurant sell 20,000 milkshakes with a profit of 10p on each, the return on investment is :

$$\frac{10p \times 20,000}{\text{£ } 15,000}$$

$$= 13.3\%$$

$$= 13.3\%$$



## SUMMARY

An efficient accounting and finance function is essential to any business. Within McDonald's, the finance team plays a key role in ensuring the company generates sufficient funds in order to maximise shareholder wealth. The finance department is involved in all aspects of the business and contributes significantly to the success of McDonald's in what is both an exciting and challenging function.

For more information visit:

[www.makeupyourownmind.co.uk](http://www.makeupyourownmind.co.uk)

[www.mcdonalds.co.uk](http://www.mcdonalds.co.uk)



## Talking points

1. Why does McDonald's need to report on money received into the business and money paid out of the business?
2. What type of financial support do McDonald's restaurants need every day?
3. How does McDonald's invest their money and why do they expect a 'return on investment'?
4. What is cash flow? Why is it important to know where money is coming from and going to?
5. What are the responsibilities of the payroll department?
6. How does McDonald's make a profit?
7. What factors make a difference to the profit that McDonald's earn?
8. Why is it important for McDonald's to make a profit?
9. Why might McDonald's need to borrow money?



## Glossary

### Accounts Payable:

money owed to suppliers outside the business for goods or services received on credit, booked on the balance sheet as creditors. A finance department will have a dedicated branch to manage their accounts payable.

### Accounts Receivable:

money due to the company from outside parties for goods or services provided on credit, booked on the balance sheet as debtors. A finance department will have a dedicated branch to manage their accounts receivable.

### Balance Scorecard:

an approach to performance measurement that seeks to go beyond the classic financial measures, recognising that the inclusion of non-financial measures will give a more rounded and accurate evaluation of performance.

### Dividend:

payments that are made by a company to its shareholders. When a company earns a profit they can choose to retain those funds, to re-invest the funds back into the business, or they can return it to the shareholders of the company as a cash dividend on their continued investment in the company.

### Fixed Asset Register:

a list of the equipment, fixtures and fittings which are currently employed by each restaurant to generate sales. It records the assets' original cost and their value today after natural wear and tear which is known as depreciation.

### Franchisees:

persons licensed to trade using a particular brand name and agreed operating systems, who in return pay a royalty fee and take a share of revenues made.

### KPIs (Key Performance Indicators):

these are measurements, both financial and non-financial, set by management to evaluate the company's performance in areas of the business that are deemed critical to excel at in order to outperform competition.

### Statutory Accounts:

financial statements that, by legal requirement, all limited companies must produce annually and make publicly available. These include a Profit & Loss Statement and a Balance Sheet Report prepared to a standard format and verified by external auditors.

### Strategy:

a defined business plan of action, including specification of resources, that is required to be followed to ensure successful achievement of an overall goal.

### Treasury:

a function of a company's finance department that is responsible for improving and maintaining the financial standing of the business. Treasury employees ensure that suitable types and amounts of funds are being used to finance short and long-term business activity. They also perform risk management to reduce a company's exposure to currency and foreign exchange risk.

