

## Welcome to IF Consulting's e-Newsletter

October 31, 2006

Our regular email tackles the topical issues that surround all marketing channels and their underlying strategies.

### From company-owned to franchised

McDonald's Corp. announced last week that it may sell another 800 of its company-owned stores to franchisees. In a Securities and Exchange Commission filing, the McDonald's claims that the losses the company would incur as a result of the move could be "significant". The company expects a vast shortfall between the proceeds of the sales and the restaurants' book value.

The company first announced that it was considering franchising 1,500 company-owned restaurants in January this year. According to a McDonald's spokesperson, of the 30,893 McDonald's worldwide, about 27%, or 8,243, are company-owned.

In a conference call last week, McDonald's Chief Financial Officer Matthew Paull said that the franchising strategy "aligns us with local entrepreneurs who know the local culture, business and legal environment." Paull also added that it allows McDonald's management to focus its time and energy on "markets that can make the greatest difference."

<http://www.chicagobusiness.com/cgi-bin/news.pl?id=22517>

### IF Comment

McDonald's divestiture of its company-owned stores raises some interesting issues. Why is McDonald's selling company owned stores below their book value?

The theory behind corporate stores is that only flagships are company owned. However, in some of McDonald's remote markets, these flagships have become sinking ships which McDonald's has to fund, resulting, as the article says, in a lower return on capital.

Franchisees own, and are fully responsible for their assets of stock, equipment and accounts receivable. They are also responsible for all ongoing costs of wages, food costs, etc. Franchisees have their time, money, pride and prestige invested in their businesses and are far more motivated than employees who have no stake in the businesses they run.

McDonald's earns its money from a combination of initial license fees, service fees or royalties and, where it owns or head leases the franchisee's premises, a percentage of the franchisee's sales as rent. The end result, less dollars for the company, but a much higher ROI.



**IF International**

Marketing Channel

Strategy Consultants

Maximizing shareholder value  
through creating the best route  
to market

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## Snippets

The Commonwealth Bank of Australia (CBA) chief executive Ralph Norris has proposed that by 2010 most CBA branches will be run as a "virtual franchise". This will be the first time a major Australian bank has embraced a franchise system in its mainstream operations.

<http://www.theaustralian.news.com.au/story/0,20867,20656752-5001942,00.html>

Major shareholders in Coffee Republic have ousted Bobby Hashemi, the founder of the business and one of the people credited with bringing American-style coffee shops to the UK.

<http://www.telegraph.co.uk/money/main.jhtml?xml=/money/2006/10/21/cncoffee21.xml>

According to a report released last week, one out of every ten online consumers is watching television shows on a computer. News broadcasts are the most-watched television content viewed online, with 62 percent logging on for that reason, while close to 50 percent go online for entertainment viewing.

<http://www.ecommercetimes.com/story/De5fLX3CR2J6b8/The-Anytime-Anywhere-Online-TV-Trend.xhtml>

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IF Consulting publishes "Our View", a review of topical marketing channel issues. Samples are available on our website.

IF Consulting is a leading international marketing channel strategy consulting firm with over 35 years' experience in a vast number of industry sectors. See our website for further information.

<http://www.i-f.com>