Evolution of business models under different velocity regimes

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Résume

Les modèles d'affaires sont émmergés il ya une bonne dizaine d'années. La question de dynamisme est apparue dans la litterature académique, notamment concernant les cycles d'affaires, portfolio des modèles d'affaires. Notre recherche a pour but de découvrir comment les mêmes modèles d'affaires evoluent dans les contextes des environments à vitesses differentes ? Bien que les modèles d'affaires ne soient pas statiques, on a payé moins d'attention de manière de transition, spécifiquement, concernant un modèle global comme celui-ci de McDonald's. La recherche vise à scrutiner les McDonald's à 3 pays de l'extrémité différentes (volume de marché, nombre des restaurants, populations) pour voir l'évolution de modèle sous l'influence des environments de vitesse differentnes. La recherche va être conduite comme étude de cas du modèle de McDonald's dans des pays respectifs, en utilizant le données archivales por construire la evolutions de la vitesse d'environment and les interviews aves des stake holders pour découvrir la évolution du modèle d'affaires. Bien que notre recherche n'est pas achevée, nous porrons déjà faire des conclusion préalables sure l'influence de vitesse d'environment sur les changes dans des modèles d'affaires.

Keywords : Modèles d'affaires, vitesse d'environment, évolution

Introduction

Recent fast development of technologies, important changes in the political, macro economical situation, legislations and other factors form the turbulent environment that companies have to face and survive in. Such environment is characterized amongst other by the highly unpredictable yet impactful sudden changes that dramatically influence the company activity. To better cope with such changes, the need of more flexible and adapted, less formalized strategic approaches, based on the broader visions of future states, began to emerge (Mintzberg, 1994). Environment has been taken for granted by many scholars for many years, but started to shift focus in the end of 80s, with the inclusion of environment dynamism (Dedehayir & Mäkinen, 2011), inclusion of turbulence, high velocity environment concepts (Chakravarthy, 1997), (Bourgeois & Eisenhardt, 1988). More recent contributions even more radicalized the view on the environment velocity, by adding a multi-dimensional prism to the environment observation (McCarthy, Lawrence, Wixted, & Gordon, 2010). Hence the impact of velocity and uncertainty is nowadays affects the way company operates or "the logic of the firm, the way it operates and how it creates value for its stakeholders" (Zott & Amit, 2010) much more, than considered before. Enchantment of business model and business modeling is not new, but enjoyed a great deal of attention within the last decade. There are many established companies, those who survived and probed to be superior by concepts, technologies, etc. But some of them, like Amazon, Car'n'Go, Apple, McDonald's and others disrupted the way the company works and brings the value to its customers. The business model of such companies are seen as exemplary and often borrowed by other companies, within or outside industries. Such companies can be badged "iconic". Iconic business model notion is well known in marketing/brand jargon, but less articulated so far in academic literature. Whenever referred to the iconic companies or subsequently iconic business model we would understand the business models of firms that have shaped the industry have revolutionized their environment, and become category or label name (Sabatier, Mangematin, & Rousselle, 2010). In case of iconic business model we can add up the longevity and sustainability of such models and ability of constant adaptation of the companies in question (Teece, 2014). Indeed the evidence from the a study of the largest U.S. manufacturing firms in the 20th century, (Louçã & Mendonça, 2002) report that only 28 of the initial 266 companies remained on the list over the period 1917-1997. The McKinsey study of the life expectancy of firms in the S&P 500 showed that in 1935, the average expectancy was 90 years. By 2005 it dropped to 15 years only (Foster & Kaplan, 2001).

Yet, in spite of the turbulence some firms do survive and prosper over time. It is specifically true for companies with iconic business models that have the abilities to overcome successfully the environmental transitions and sustain the competitive advantages. Despite the fact that business models mostly are used with relations to the nascent or high-tech industries (Santos & Eisenhardt, 2009), "incumbent" or "established" business model companies enjoys less attention, or used like the exemplary model to be adapted within or inter industry. Nevertheless the existing business models are susceptible to the same effects from environments and changes in the speed, while less is known how they evolve business models. The evolution or changes of business models has enjoyed more attention in the literature regarding how business models evolve over the time (van den Oever & Martin, 2015), rather than evolution of the business model in connection with the environmental velocity. The aim of the current research it to fill these gap, by exploring how and to which extent change the business model of the same company in the different environmental velocity regimes. Hence the research question would be: *How the environmental velocity influences the evolution of the business model?* The environmental velocity concept would be based on the multi-dimensional environmental approach (McCarthy et al., 2010). The research would be based on the case study of the iconic company – McDonald's a company that disrupted the fast-food industry over 70 years ago, and still among the biggest and most valuable companies, and brands worldwide. The choice of McDonald's as the research object could be even more justified, as McDonald's business model is supposed to serve as an original for replication, in a more precise way possible. Indeed replication strategy, known as "McDonald's approach" envisages the creation and operation of the large scale of outlets offering similar services and products (Winter & Szulanski, 2001). Yet empirically we could see differences in the way McDonald's operates in different countries, as well as the products offered and position on a market assumed.

We believe that our research will contribute first to the literature of the business model, noticeably to the evolution of business model, further elaborating the fine-tuning of business models (Johnson, Christensen, & Kagermann, 2008), particularly concerning the way iconic business models which is McDonald's evolve (Sabatier et al., 2010). Such evolution was traced along the countries with different environment velocity. So secondly we will contribute to the literature of environmental velocity (McCarthy et al., 2010)(Nadkarni & Barr, 2008) and thirdly we see the contribution to the decision making processes across centralization and localization across the countries under different velocity regimes. That complements the literature on strategy in the different velocity environments (Bourgeois & Eisenhardt, 1988). The research would contribute to the business as the companies with unique business model while making the geographical expansion comes to the environments that would lead to the eminent evolution of the business, considering that such evolution in certain environmental regimes could be extremely fast. Recent developments of Uber and Airbnb in France and China could prove it (William C. Kirby, 2016)

Literature Review

Business models

Business model notion is with the academic and business community for quite some time, although one can argue that we have always had business models without admitting it. Business model was used first to describe the way the business apprehended the reality, or simulated the reality through the model. It was not though till only 90th that it became widespread topic in academic literature though. (DaSilva & Trkman, 2014). From this period on business models shifted from the technological innovation focus during the dotcom economies, where they were used to the explanation of profit source of technological companies, to the way of substantiating the construction of almost every aspect of life, from terrorist organization to political parties etc.

There are different definitions of business models, yet, most of them are centered around the way the company creates and appropriates values (Zott & Amit, 2010). The majority of scholars share this approach with slight nuances. Broadly speaking business models are the logics of the firm, the way it operates and how it creates value for its stakeholders. (Lecocq, Demil, & Warnier, 2006)(Baden-Fuller & Morgan, 2010). From a historical standpoint business models were devised as a descriptive system for describing the way companies operated, their systems, logics and architectures. Later on the new, cognitive approach evolved that saw business model as cognitive device for building the logic how company encompass consumer expectations, how they are expecting to capture the value created. In the definitions of the concept we see the shift in view from Business models as descriptions to Business models as device Considering the value, we suggest viewing it as the complex of value creation, value capture and value exchange ((Bowman, 2010), (Lepak, Smith, & Taylor, 2007)). For business models a recognized way of representation is a two sided link that of the Value Creation and Value Capture (Amit & Zott, 2001). Value creation indentifies the customers and the way company engages the customers, while the Value captures refers to the way the value is delivered and monetized. Business models can be seen as the different taxonomies, focusing on the content of business models (Osterwalder & Pigneur, 2005), from the perspective of typologies of business model components (Baden-fuller & Mangematin, 2011), and casual links between those components. From this perspective business model can be represented as the architecture and design of the major components, customer's identification, customer engagement, value delivery, linkages and monetization's. (Baden-Fuller & Haefliger, 2013). A more expanded view on the components, or business model building block can be adopted from (Osterwalder & Pigneur, 2005). This would include value proposition, (company's services and products), target customers, distribution channels, relationship (that of company and different customer segments), value configuration (linkages between different activities and resources), core competencies (needed to execute business model), partnerships (agreements with other companies to appropriate value), cost structure and revenue model. A combination and casual links of these elements creates the recipe of the business model (Sabatier et al., 2010), that is one of the main functions of business models – describe the state of business, be the field of academic and business investigation and serve as cookbook for managers (Baden-Fuller & Morgan, 2010). Recent developments suggest two theoretical approach to business model: 1) that of activity based perspective , as a system to create and capture value (Zott & Amit, 2010), 2) cognitive perspective, seeing the business models as an instrument that represents those activities (Baden-Fuller & Morgan, 2010). Hence it could be said that from cognitive perspective business model is mental representation of top-managers or decision makers, it exists in form of text, discourses or visual objects to articulate their business models (Furnari, 2015) The vast number of academic articles tracks the technologically innovative companies, where technologies shaped and challenged traditional business models, specifically in the ways the value is adopted, how the revenue is created, for which customers(Teece, 2010). But in the sense of business model, traditional industries are often the prototype models for much broader variety of industries, and eventual source of imitation/application, both intra- and cross-industrials (Martins, Rindova, & Greenbaum, 2015). In this way such companies serves as a role model for others, or prototypes (Baden-Fuller & Morgan, 2010). Some of such model proved to be so successful that they serve as an example, or nutshell name for all the industry, as Herz for car rental, McDonald's for fast food, and Amazon for e-retail. Such models can be labeled iconic, as widely recognized to be an exemplary and particular way of creating and capturing value. Such models shaped the industries and revolutionized the environment (Sabatier et al., 2010). Moreover it sets certain standards and as described above serves a role model for other industry participants. In recent years there is a growing interest in the role of business models in already existing business concepts (from purely operational point of view to future oriented strategy) and strategy oriented view of business model, where business model is seen as a direct result of strategy, but not a strategy itself (Wirtz, Pistoia, Ullrich, & Göttel, 2015) At this point, the business model takes on concept and depicts the value creation logic of a company with a holistic description of company activities in an aggregated form (Osterwalder & Pigneur, 2005). So far most of scholars see the business models from rather static perspective (Wirtz et al., 2015) considering it as an established value-creating logic of a company at a certain period of time , whereas the question of evolution of business model, or dynamic perspective is specifically important for the established companies. Eventually, business models cannot be static, as the components of business models, and the linkages between them are in rather constant dynamism (Lecocq et al., 2006). Of course, companies should not pursue business model reinvention unless they are confident that the opportunity is large enough to warrant the effort. In this logic not all contingencies or changes lead to business model change. Organizations often have to review their business models in order to keep in line with changing environments (Tucci, 2003). Business models have to keep up with external changes during all phases from development to exploitation. (Cavalcante, Kesting, & Ulhøi, 2011) propose the following classification of the potential business model evolution: creation, extension, revision and termination.

We can notice that to certain extend extension and revision phases share some similarities in terms of propulsion factors, with difference - extension implies expanding the business without affecting already existing business processes, while the revision sees the change of existing practices (Cavalcante et al., 2011). Extension and revision processes are the one exercised by the established companies, while the creation implies new business model. We can summarize hence that changes in established companies are fuelled by the combination of external and internal factors. Most of scholars see the changes (or innovation in some cases) grounded in internal factors. This is because change is seen as an activity that is within the control of a company that is controllable or manageable. In contrast, less attention is paid to the effect of external factors on change. Firm's actions including their evolutionary activities are contingent upon and are sometimes driven by external factors including important shifts customer demand, competitors' actions, or even government's regulations (Yalabik & Fairchild, 2011). Organizations often have to review their business models in order to keep in line with changing environments (Tucci, 2003). One of the important characteristics of environment is the velocity that greatly influences the strategic process both on industrial level, as well as from managerial perspective. Inclusion of the environment speed as a component can benefit a company to better adapt to the dynamism of competitive environment (Bourgeois & Eisenhardt, 1988).

Environment velocity

Every industry changes over the time, suite of interdependent change of the environment, competition and technologies. Survival and success of company depends from the way it copes with the changes and choose the inherent paths of development. Environmental velocity, though not a new notion as such, has a number of angles of definitions. Velocity reflects the speed (frequency and time span between change intervals), scope of such changes and the level of predictability(Nadkarni & Barr, 2008). High velocity industries are characterized by rapid and unpredictable changes in product and process technologies and competitors' strategic actions that cause difficulties to develop a clear and comprehensive understanding of their environment. In contrast, the inherent stability of low velocity industries allows top managers in incumbent firms to gradually build and improve their understanding of the environment through systematic scanning approaches, and respective strategies. In low velocity environments, changes occur along rather predictable and linear paths. They have relatively stable industry structures such that market boundaries are clear and the stakeholders (e.g., suppliers, competitors, customers) are well known and rarely change so companies rarely face events of high uncertainty of unpredictability. The top managers of firms in low velocity industries also face relatively less hostile task sectors because their firms can protect existing core competencies and achieve sustainable competitive advantage by building isolating mechanisms that retard imitations (Eisenhardt & Martin, 2000). On the contrary high velocity is characterized by non-linear highly uncertain changes. While in reality the environment can be treated as multifactor or multidimensional, where each component may have its own rate and direction of change. Dimensions of environments in this case are demand, competitors, technology and regulations (Bourgeois & Eisenhardt, 1988) and the product. The multidimensional approach envisage the different measurable for each set of dimensions seen through rate of change (speed) and directions. Demand velocity can be described by a willingness and ability of market to pay for goods and services. The rate of change can be the market sales over the chosen period, and the direction – a corresponding trend. The technological factor – changes in the specific technological process and components within a given industry, the measurable of rate – number of patents and the direction is the relationship between price and the performance of the technology (Dedehayir & Mäkinen, 2011). Competition characterized by the change in the competitive environment, where the rate of change could be attributed to the size by the industry both in size and number, and the direction would be trend (decline or growth). Regulation change touches the regulatory changes over the scrutinized period, with the rate of change corresponding to the introduction of new legislation, and the direction – the trend in regulation –

regulated or liberal, as well as the scope of such regulation. Finally the product level change is referred to the changes in the products or services, where the rate of change is the number of new products introduced and the direction is the features of products as perceived by the market (whether such changes are merely the amendments or improvements to the existing products, or a fundamental change). Hence we can conclude that the organizational environment is composed of a number of distinct dimensions, each of which is defined by its own rate and direction of change—or velocity.

Evolution of business model in different velocity environments

Speaking of the business model evolution under the different velocity environments we can refer first to strategizing under the same conditions, as the entry point of business model evolutions. Strategies in high-velocity environments, the traditional mid- and long-term strategies, are seemed to be less useful for the complex and highly volatile environments, that are ruled by the simple experiential strategies, based on newly acquired knowledge (Eisenhardt & Martin, 2000) rather than on the long-term foresights. Consequently, companies must implement and dynamically alter "simple rules" strategies to cope with the different rates of change in the industry's evolution. "Conventional measures of strategic planning success [are] nonsensical in high-uncertainty environments - if you could predict [the future] accurately, so could everyone else: little advantage would be gained" (McGrath, 2010). Such theory can be supported by the way the companies innovate, by applying mostly the discovery and experimentation approach. The latter view would be mostly shared by a new company on the creation phases, but what would happen to the established, iconic company in the dynamic environment? The question of environmental impact is seen by the literature in the light of company efficiency/competitiveness of the company, or products, it's relationship to innovations in the sense of technologies/products (Prajogo, 2015). Established companies tend to avoid the radical changes, as such changes require the significant changes in the mental models of manager, and the company processes. Such avoidance can exist as the immediate rejection, or trying to adapt the new processes to existing business model, where such changes to not lead to major revisions (Cavalcante et al., 2011). That is why the revision or evolution of business model change is often "radical" or "disruptive" as it considers changes on the process level. Depending on the changes in speed a company may exercise the different strategies and respectfully the different models of business model evolution. The business model change can come to the conflict with the manager's success story beliefs, and can be bounded by key aspects (novelties, complementary, efficiency). When speaking of the evolution, the business model we aim to see exploit and compare how the company, with the comparable (global) entry point business model evolves over the time with the evolution of the environment velocity of the components in different countries.

Setting of the research

For our research we have chosen McDonald’s, as one of the company with distinctive business model, one of American symbols, that had its influence far beyond the framework of an industry. McDonald’s is one of the biggest companies in the world. As per 2016 Millward Brown report, McDonald's is among Top-10 most valuable brands in the world (100 most valuable global brands 2016, 2016) During the timeline from its creation McDonald's has already passed a number of important changes, still some of the fundamentals of the initial business model remained almost intact from the time of the company creation in the 1948. McDonald’s appeared from what could be referred by the time as radical innovation. After the experiments with traditional approach to the restaurants (carhops, cooks, and waitresses) in 40s, brothers Maurice and Richard McDonald's in 1948 made the complete revision of the business, changing the key components of the model – the way the value was delivered to the customers, resources and processes. They moved to a simplified menus (same assortment of hamburgers, drinks, condiments), move from skilled cooks to highly trained but low skilled workers, use of paper dishware. That dramatically reduced the costs of both resources and the price of products to the consumers. As the stated the advertising of the period - “Imagine — No Carhops — No Waitresses — No Dishwashers — No Bus Boys — The McDonald’ (Schlosser, 2002). The later additions to the system came with the Ray Kroc, joining the company in 1954, that further added new revolution areas, such as franchisee system based on individual license, not the territory ones that were general practice at the period. Ray Kroc standardized the franchisee offer, made a unique sublease real estate system, the appearance of iconic product offer (such as Big Mac in 1968, introduction of special breakfast menu, etc.) From 60s on company went into expansion phase with the number of restaurant grew ten times over the latter decade. In early 1980s company started the global expansion with the openings in Japan, Philippines, Spain, having by mid 80s the footprint in 32 countries. By 2010s McDonald’s was present in 123 countries globally. The business model of McDonald’s developed quite in line with the stages suggested by (Johnson et al., 2008). From the creation and initial development, to the expansion phase, and finally to revision, that occurred rather locally that the globally. It I discussible though, whether the McDonald’s entered nowadays the phase of global revision. In early stages most of components of McDonald’s current business model were developed (value offer, supplier relationship, revenue model). Most of it was done prior to the expansion phase. The business model of McDonald’s as a universal initial point of entry to a country could be represented by the following schema (Osterwalder & Pigneur, 2005):

Key Partners	**Key Activities**	**Value proposition**	**Customer Relationships**	**Customer Segments**
Medias Advertising Franchisee Food producers Farmers Suppliers Reputation Agents (PR)	Marketing Product developments Quality guarantee & control Lobbying Logistic Teaching & Trainings	I'm loving it Quality accessible standardized food.Fast service Logistik Franchisee services	Advertising PR Visits SMM	Franchisees Restaurant visitors
Cost Structure	**Key Resources**		**Channels**	
Advertising Management Teaching & Training Supply Rent	Brand Real estate Supply chain Kitchens model		Markets Directly	
			Revenue Streams	
			Franchisee ppayments Real estate sub lease Restaurant sales	

The schema of building blocks is given here purely with illustrative goal, as a draft representation of components of McDonald’s business model, that can be used roughly as a departure point “global” or “universal” setting of the original BM of McDonald’s

Methods and data

The aim of our research is to see how the business model of a global company evolves over the time with the progression of the velocity of environment. Since the work is in progress, we would have the scrutiny of 1 country only with the preliminary environmental data of 2nd country. The choice was justified by empirical differences of the setting (environment, scale) to provide the extremities in latter. The same approach would include further the 3rd country. Since our question relies on “how” question the call for qualitative study is justified. We want to explore the evolution of business model depending on the environment velocity factors, The approach to qualitative research would be multiple case studies as fitting the best to the research question (Creswell, 1998). We would have 2 units of analysis: the velocity of environments through its components (multi-dimensional approach), and the business model in the given markets in order to trace the possible relationship with the environmental velocity as influencing factors of change of the business model. In order to observe the evolution of business model from realistic position, we would first observe the major environmental speed shifts, occurred from the launch of McDonald’s in respective countries (or during the period covered by the data), and track potential changes in the McDonald’s way of doing business that may occur suite of such changes in the environmental speed. The same process would be replicated in the other 2 countries with presumably different (higher) velocity in order to observe how the business models under these conditions evolved. For the tracking of environmental speed we would use the multidimensional concept (McCarthy et al., 2010). We would observe the environmental speed across the following dimensions: regulations, demand, technology, competition and products (Bourgeois & Eisenhardt, 1988). Each dimension can be described through the angles of speed of changes of the dimension within a given period of time, and the direction of such change. In most of we propose to keep the measurements based on velocity of change. The product dimension velocity would be measured as number of new products introduced each year in permanent and seasonal offer. Regulation velocity would be measured as number of amendments in existing legislation and introduction of new one, related to the fast food industry. Demand can be measured by the sales changes. Although for fast food industry it is more relevant use with the Frequency of visits, as more universal criteria, rather than sales (given the important fluctuation of local currencies). Frequency of visits is also a more appropriate measurement for QSR industry. Competition velocity can be measured both by the changes in industry population, representation and size of competitors (Hannan & Carroll, 1992). Measurement of technology dimension is more difficult task. There is a general concept of the technological change rate as the rate of change in those technologies over a specific time period, including the creation of new technologies, the refinement of existing technologies, and the recombination of components technologies (Dedehayir & Mäkinen, 2011). No uniformity in the measuring indicator of such change evolved though. One of the proposed in the literature, the number of patents (McCarthy et al., 2010) is not quite suitable for fast food industry. The rate of technological change varies dramatically across industries, and the velocity of technology was mostly related to high velocity and even more specifically to high-technological industries. We propose in our case to measure rather direction of change, rather than the rate of the technological change. By direction we would understand the technological changes occurred both in the production domain, as well as in servicing, it's penetration to the local business. The semi-conducted interview aims to track the evolution of business model from the perspective a McDonald's employees. The semi-structured questionnaire (Appendix1) was developed containing the questions on the evolution of McDonald's business model, external factors originating the model changes, decision making processes. While making the questionnaire we tried to avoid the overly theoretical wording and terms, or explain the questions containing it in more simple, used terminology (Gioia & Thomas, 1996).

Pilot case description

Pilot case is done on the basis of McDonald’s Ukraine case plus the preliminary environment velocity analysis of France. Data collection was done on the basis of 2 main sources: archival data and series of semi structured interviews with the representatives of different departments within McDonald’s Ukraine. Archival data is based on the number of open sources (statistics, company press-releases, advertising, web sites), internal documents (kitchen technologies memo), and quarterly tracker results. Since in our measurement we rely on the statistical data as primary source, we believe that we can avoid biased shortage and accessibility inaccuracy (Yin, 2011). Semi structured interviews we held with heads of marketing, Finance, Operations, HR, PR, Supply chain departments and CEO. The case would be later replicated in presumably higher velocity markets. The combination of archival data analysis and interviews would give us the possibility to compare the state of the environmental velocity of McDonald’s Ukraine and compare/prove it by the cognition of top management. Moreover this would bring the additional robustness to the results (Yin, 2011). The initial comparison to France environmental velocity would be done, to draw conclusion regarding the differences of 2 countries.

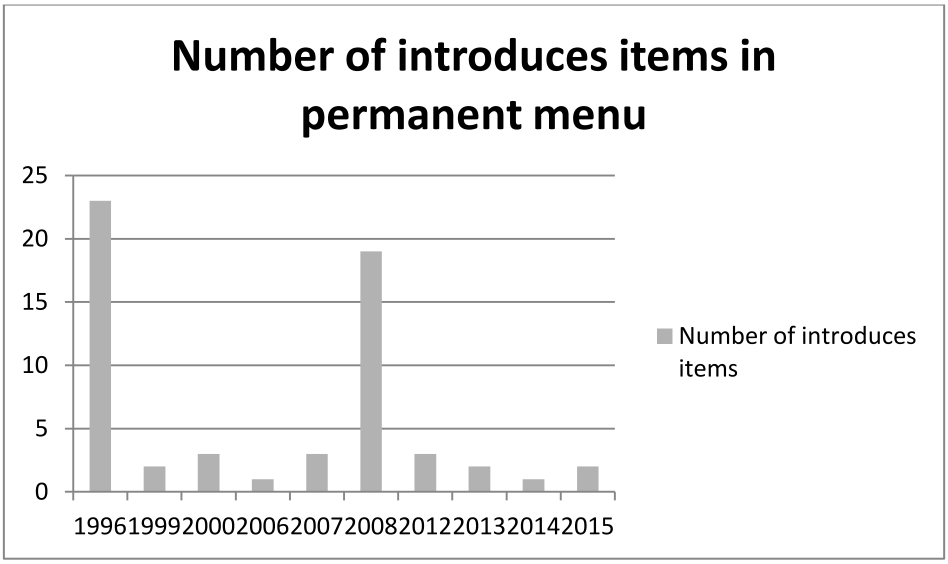
Case study

McDonald’s in Ukraine open the first restaurant 1996. McDonald’s operates currently 78 restaurants in the whole country, with almost 7000 employees on the sites. Unlike the global practice, McDonald’s Ukraine operates as subsidiary of McDonald’s Inc. rather than being a franchisee business. As McDonald’s in Ukraine QSR (Quick Service Restaurants) occupies dominant position we would use the approach of measuring products velocity based on the internal figures (due to the lack of the viable data on the market itself) while competition, technology, regulation and demand would be based on the assessment of number of changes occurred in the respective category. Regulation would be traced on the number of legislative initiatives, related to the business in general, food industry, advertising, hygienic norms etc. Technology would be the introduction of type of kitchen and specific services (delivery, Kiosks, etc). Products would be traced according to the number of changes introduced in the menu (permanent products and seasonal offers). Since McDonald’s is a market leader in Ukraine (having more than 40% of market share), and considering difficulties in obtaining the certain data for whole market (changes in the menu), the measurement of changes in the product and technology dimensions would be done on the basis of McDonald’s data only.

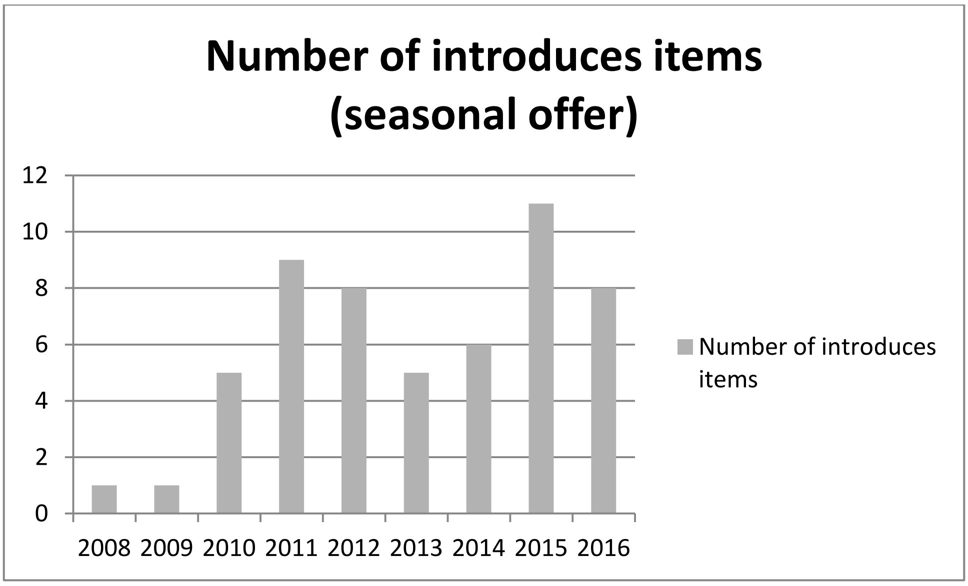
Environment velocity dimensions

Products

McDonald's offers the standardized menu that splits to permanent and seasonal offers. Both permanent and seasonal offers differ greatly in quantity of items as well as in frequency/volume of new introductions per year. There is though a so called "core" products that are present in most of locations across globe. In order to measure the changes in the products, we would suggest using the average amount of items introduced yearly to permanent menu, and the number of seasonal entries, we would be evaluating only unique items, never mind the size variations. Ukraine initially started with 22 items on permanent menu (size variations excluding). The pace of introduction to permanent menu was the following:



Introduction of seasonal offers:



As we could observe McDonald’s in Ukraine is rather slow in introducing new items for permanent offer, while the volume of introduction of items to seasonal offer is significantly higher. Although we have to notice that significant portion of the seasonal introduction is repetitive. Fresh weeks (seasons) and Ukrainian weeks were replicated ever since it’s appearance (“McDonald’s Ukraine facebook page,” n.d.). The introduction of the seasonal and permanent items is closely related with another key component of McDonald’s business which is technology and demand.

Technology

McDonald’s technology can be observed through the prism of several lenses, namely the kitchen processes (preparation), service processes (ordering, consumption, delivery). The concept of McDonald’s kitchen comes back to the early stages of the company where kitchen revolutionary concept made part of the company value offer (dealt with speed and quality of service). The Idea of kitchen of “Aquarium” style, besides the open view for customers on the process of preparation, offered the pre-preparation of the orders, due to the standardized menu and simplified recopies. The kitchen was based on the conveyor principles. McDonald’s pioneered many kitchen tools and machinery, including rolling trays, specific fries spatulas, pump-dosator and many others (Love, 2007). Currently in Ukraine there is 1 dominating type of kitchen and 1 in the process of testing. Dominating type of kitchen in Ukraine is BOP – Bridge operating system. The Kitchen includes usually 2 sides to the kitchen, one for beef products - 'Grill-side' and one for Chicken, Fish and Seasonal products - commonly called 'Chicken side'. On Grill-side your objective is to have the food already prepared and ready in the Production Bin before the customer arrives. Chicken side everything is made to order, and when a customer asks for a McFish menu your aim is to make that sandwich in 90 seconds or less, that is operational standard. The BOP kitchen is still largely based on the initial principles, where little level of customization was allowed. This McDonald's kitchen is designed to prepare large quantities of burgers in advance of the main peak periods (e.g. lunch and dinner). The emphasis is on speed--getting customers in and out as quickly as possible—rather the variety or “specific” quality. Crew members cook burgers on a fryer shaped like a clamshell that heated both sides of the patty in a little less than four minutes. Patties were "batch cooked" in advance. Burgers would then be dressed, wrapped and stored under heating lamps. Customers rarely had to wait--unless operators miscalculated the amount needed. Considering quite important investment of remodeling (25-85K USD per restaurant), excessive visitors per restaurant, 9 Ukrainian restaurants are among TOP-100 within McDonald’s, with 1 location in Kiev counting as much as 2,5 mio checks a year), it is not surprising that the process of switch to MFY kitchen type is rather slow and postponed. Currently the MFY concept is being tested in Ukraine. MFY Kitchen alias the Made for You kitchen is a dual direction move in upgrading preparation processes and quite a revolutionary departure from the pre-cooked ideology. From one side it is a farther development of the automatization: improvements of some key elements of the system like steamers, toasters, automatic equipment for french frying, computerized order entry and a computerized ordering system. From the other side it allows more liberty of orders customization and possibility to create orders "on-demand". Gradual switch to MFY kitchen started in early 2000s worldwide, but considering important upfront investment is still on the go in many countries including Ukraine. Processes in MFY kitchen are different from BOP type. The key kitchen positions included at least one person on "batch" cooking meats, one "initiator" beginning the sandwich assembly process, and one "assembler" completing it. A fourth person cooks french fries. Cooking is automatically timed; the clamshell popped open when the meat was cooked. Patties a then placed on trays and stored inside heating cabinets , known as UHCs—covered units heated to 200 degrees that kept the patties hot. Trays were timed to remain in the UHC only 20 minutes. After this time, the patties were discarded. Only enough patties were cooked to meet the level of current sales or volume pattern for each hour. Once a customer ordered a burger, the counter person punched the request into the computer and the order appeared on overhead monitor in the assembly, or prep, area. The predominant feature in this section was a two-sided prep table, affixed with a top-loading toaster at one end, condiment guns in the middle, and UHCs at the other end; wrappers and boxes were stored underneath. Two monitors are stationed overhead at both extremes. Generally, two people—an initiator and an assembler— work this table, although their number could be doubled during peak hours. When an order appeared onscreen, the initiator takes a split bun from the bun cart and dropped it into a high-efficiency toaster to start the preparation. MFY kitchen is supposed beyond other to bring the positive quality image to McDonald's, improve the customer perception (MFY in many countries serves as a model for Fast food industry), although such improvements require higher requirements for crew (to operate with high-tech system, specifically considering the high employee turnover, average working time is 3.5 months), order lead time is under pressure on many markets, especially in the peak hours. In terms of service technology changes, Ukraine is testing the kiosk system. Kiosks were introduced with the following: saving on the process cost, improve customer experience (reducing lines, especially in peak hours), and improve customization possibilities. The order is done in the restaurant lobby zone; customer has the possibility to pay at this period time as well. The order is than assembled and picked up over the counter. Considering the significant cost of installation (between 120-160K USD) (Addady, 2015), and the limited potential of kiosk, without the expansion to MFY kitchen, there are only 22 kiosks in Ukraine currently, installed while remodeling the existing or opening new outlets.

Regulation

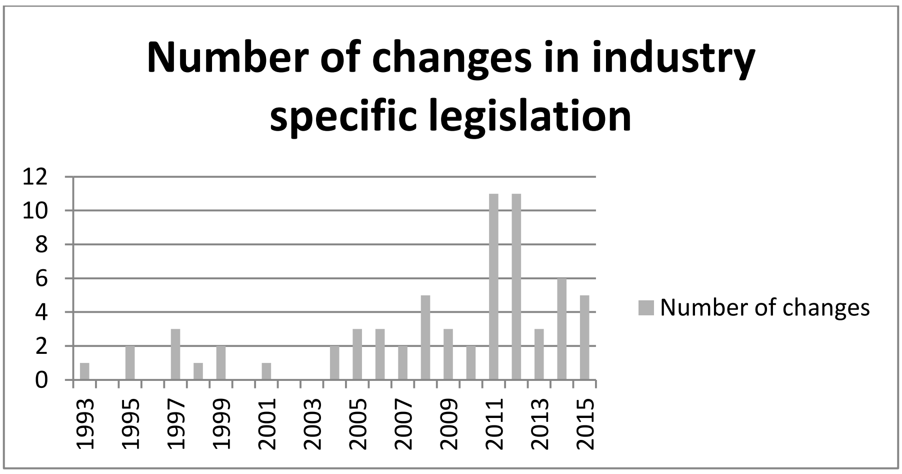
The changes in the regulation would be seen as the frequency of changes in the respective legislator acts, that affects the industry of QSR. Such regulation includes authorities' acts as changes in laws, regulations, and polices as well as industry self- regulation (such as voluntary standards and codes, e.g. Tobacco Code of Conduct). Regulations can be split into:

a) General business level (norms and regulations affecting general business making). This level includes changes in the general tax rate and principles (income tax, corporate tax, social taxes, registration norms etc.)

b) Industry specific norms (such as industry standards, policies, specific industry related taxation, compensations, subventions etc.)

c) Voluntary obligations (industrials agreements, codes, restrictions)

We would check the rate of changes introduced in the industry specific norms and the voluntary obligations, as it represents changes specifically affecting QSR industry. The supreme level of regulation in the domain is the Trade Law adopted in 2006. It regulates and defines general principles of trade in Ukraine. The law is a more general act, extending the law on the Retail from 1996. More industry specific level (including standards of safety, qualities of services, preservations, etc.) is Retail in Food law of 2003 and the Restaurants Act dated in 2003. The next level is finance related acts and norms. To this we refer the Law on the pricing in the Food Retail industries (1997), Act on the Safety of Goods and Services in Restaurant Industries and The Procedures of Tax Audit of Restaurants (both 2008).



McDonald’s has the number of voluntary obligations, done on a global level such as Standards of Business Conduct. (Employment related issues, employee rights), commitment to doing business responsibly in the supply chain in ethical, environmental responsible and economically viable ways. These principles are equally applicable in Ukraine. Although the other initiatives promoted in other markets are evidently absent from the current engagements (“Mcdonald’s corporate site,” n.d.). Overall development of Regulation velocity is characterized by the increased number of legislative initiatives since 2013, but the scale of such changes seems to be less impactful (EU harmonization).

Competition

Ukraine QSR industry is relatively young compare to other markets. The competition in the domain is high but very fragmented. QSR is the biggest (46% of visits, all Ukraine basis, or 70% on the basis of any chain visitors) among the restaurant industry, although smallest in terms of number of outlets: 20% The Restaurant industry includes besides fast food restaurant, affordable restaurants with table service, bars, food kiosks, canteens, department stores food points, coffee houses, home delivery. Fast-food accounts for about 4.5 bn UAH in volume. The amount of outlets, representing, the industry remains quite moderate (550-600 points). The non-branded outlets represent about 36% of market. There are only 3 international players on the market – Macdonald’, KFC and Dominos Pizza. In order to evaluate the competition we propose using the share of visits any catering chain, widely used in the industry:

Chain Name	Any catering chains visitors, %
McDonald’s	40
Puzata Khata	14
Celentano	9
Mafia	5
Auchan	5
Silpo	4
KFC	4
Coffee House	3
Pan Pizza	3
New York Street Pizza	2
Double Coffee	2

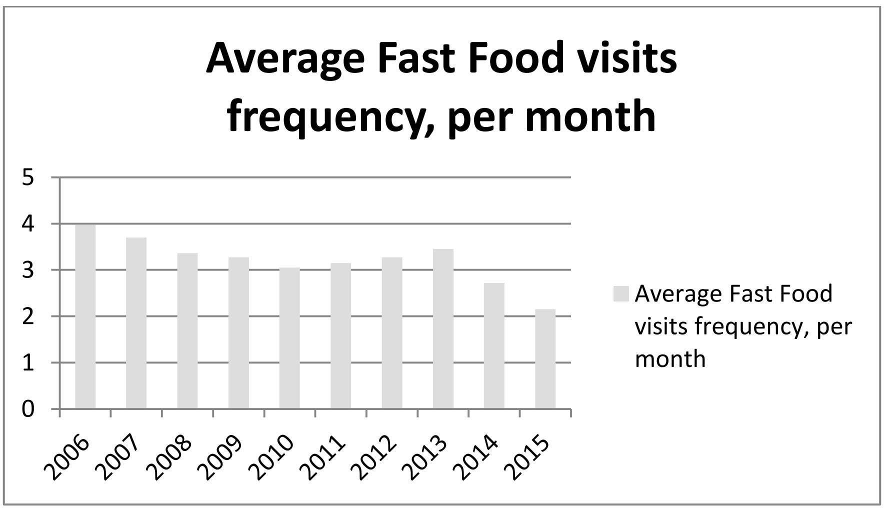
Sushia	2
Eurasia	1
Dominoss Pizza	1
Lviv. Mast. Shokoladu	1
Coffee Time	1
Novus	1
Zdorovenki Buli	1
Velika Kishenya	1

(Business analytica, 2016a)

As we can see from the table, McDonald's dominates the market, accounting more than 40% of all visits. The competitive in Ukraine by number of visits is quite stable, despite tightening competition: Puzata Khata, Celentano, McDonald's and KFC represent 77% of the visits, while KFC opening only in 2013. Puzata Khata opened in 2003. It counts currently 38 locations in Ukraine. Celentano operates 150 restaurants, first one opened in 1998. Unlike McDonald's and Puzata Khata, Celentano and KFC are franchisee business. Competition dimension is currently quite low velocity both in terms of frequency (only 4 big players appeared for the last 20 years), the number of opening and closes of restaurants is mostly stable and corresponds to 1500 opening/closes for each 2 years ("Restaurant market of Kiev," 2016).

Demand

In order to trace the demand shift, we chose the frequency of visits measure. The other possible alternative, revenue dynamics is less credible in this case, as relates closely to the price increase and penetration that goes beyond the demand changes observation.



(Business analytica, 2016b)

Number of Ukrainians visit any catering chains at least sometimes is *48*% of regular users of any catering chains with average frequency about 3.5 times per month, out of which 2,15 times is accounted for fast food chains hence fast food chains enjoy highest penetration 71% of regular users. For the last 10 years penetration of fast-food restaurants increased significantly as well as penetration of bars. Both types of catering chains increased in current period also by share of regular users - visiting this type of catering with the frequency once per month or more often.

At the same time Number fast-food shown opposite demonstrate significant decrease of average visiting frequency. From almost 4 times a month in 2006 to 2.15 in 2015. The changes primarily were caused by the financial factors (need to save money), food preferences (homemade food), and absence of desire health and quality issues. For about 57% the frequency did not change, 7% started to visit fast food more often and 26% reduced the number of visits. Demand has the variation in terms of many factors, including age, gender, education etc. Since we did not run a full scale research on France yet, we provide below only preliminary analysis of environmental velocity.

France

McDonald’s in France started its operations in France in 1979, when initial 3 restaurants were opened. It enjoyed the brisk development with 25 outlets in 1985, and more than 1380 in 2017, place of 70000 employees. McDonald’s France acts mostly as a franchisee business, where 80% of it outlets are operated by 310 franchisees (Données McDonald’s France à fin 2015, n.d.).

Environment velocity dimensions

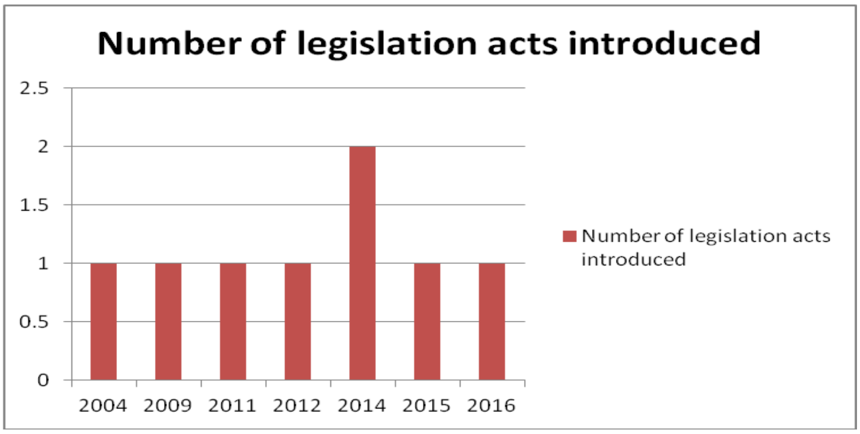
On the later stage we would analyze in the same style the rate of introduction of new products as part of seasonal and permanent offers. On this stage we can just provide the number of total products offered as of 2017 –74 permanent items and 4 seasonal offers, seasonal offers comes with the average rate of 4 items each quarter. It comes as a significantly higher offer, compare to Ukraine with 44 items in permanent menu and 3 items of seasonal offer.

Technology

McDonald’s France operates fully on the basis of MFY kitchen, allowing the rapid inclusion of premium products and customization experience, moreover, most of the restaurants are equipped with kiosque ordering system, and remodeled (new design was first introduced in 2002). In 2013 McDonald’s launches the mobile ordering system, and test table service in certain locations.

Legislation

Fast food restaurants are subjects to the non-specific norms (VAT, taxation, general norms, and labor codes) and specific. Specific one comprises the hygiene norms, licenses, security norms. In France many legislative requirement have the declarative character, rather than permissive, and of rather long duration e.g. alcohol license of 10years)



France is a very stable country, with extremely low rate of legislative changes.

Competition

French food industry and particularly fast food segment are well developed, reflecting the long cultural incline toward cuisine in France. France enjoyed a quick boom of outlets. From 2003 till now its number almost tripled, with 15% growth on the average every 4 years from 2009 on. The market in 2014 reached the level of EUR 46bn. The IEO market in France composition is the following, fast-food and cantinas 13% each, boulangerie 12%, waiter restaurants 10%, supermarkets courts 10%, deliveries 8,5% etc. ("ETAT DU MARCHÉ DE LA RESTAURATION RAPIDE EN FRANCE," 2015) The fast-food segment, and noticeably burger offer, sees the rapid development in the last years. In fact burgers spurred it with fulgurated growth, if in 2000 burgers represented only 1 out of 10 sandwich sold, in 2015 it represents almost every second! ("ETAT DU MARCHÉ DE LA RESTAURATION RAPIDE EN FRANCE," 2015). Most of international actors are presented on the market, with the inclusion of local ones, with a more premium offer (e.g. Brioche Doree)

Chain Name	Revenues 2015, mio EUR	Share, %
McDonald's	4590	10

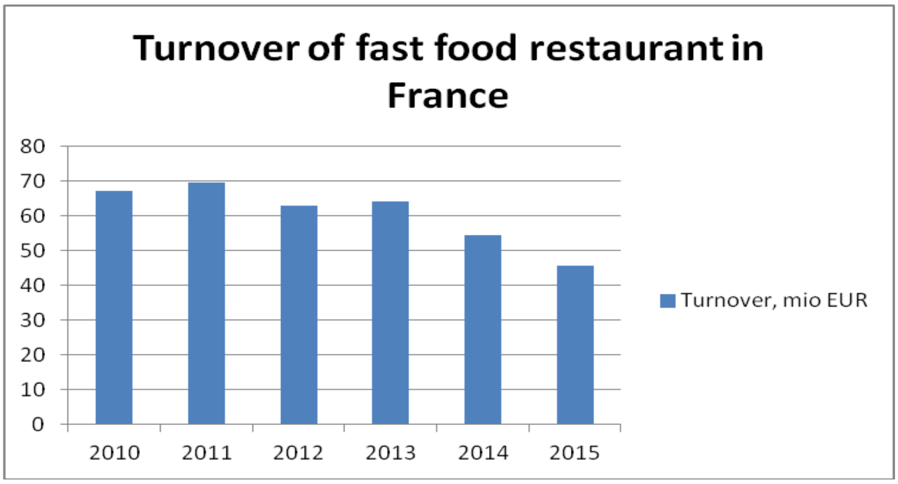
Groupe Bertrand	893	1,9
YUM	475	1,0
Elior Concessions	365	0,7
Groupe Holder	316	0,68
Domino's Pizza	309	
Groupe le Duff	238	
Subway France	190	
SAS Monts Fournil	144	
SSP	143	
Starbucks	135	
Kelly Delli	130	
Autogtill	128	
Sushi shop	121	
La croissanterie	95	

("Enquete exclusive: restoration rapide Europe&France," 2015)

McDonald's in France occupies the dominant position though with significantly lower share, but unlike in Ukraine it supremacy rivaled by the coming competitors, maturity of market and comparable number of competitive outlets. The 1380 outlets of McDonald's France for 63mio of population represents the significantly higher saturation that that of Ukraine (81 outlet for 40,5mio population respectively.

Demand

France as a more mature market, with more stable currency, and lower exposure to the regular price increases; we can use the data of market volume.



("L'industrie de la restauration rapide en France," n.d.)

As we can see the market is constantly stagnating, with the increased speed of reduction in the recent years. In terms of number of visits, more than half of the population claims to have visited fast food at least once a year (57%), where 25% frequent the fast food more than once a month. Big network guarantee the vast penetration of fast foods. Surprisingly, despite the lower turnover, French fast foods enjoy comparable level of visitation with Ukraine. On this stage we can conclude that even prior to full scale comparison to figures in other countries McDonald's in Ukraine based on the data presented, operates in rather low velocity market. Low velocity specifically can be observed in the competitive dimension (judging from the McDonald's share and competitors representation), Technological (no roll-forward of new kitchen, start of introduction of kiosks), products (volume of offer, introduction of seasonal offers). Surprisingly though, the demand as per number of visits was not so different in France and Ukraine, and France clearly operated as a much more stable legislative environment compare to Ukraine.

Interviews

The interviewee were chosen to represent heads (or at least representative) of each department, plus CEO and a restaurant director. So far we conducted 5 interviews with 3 more in the pipeline. The total of interviewee per country is planned to be 7-10 persons in order to reach saturation criteria. The interviews were analyzed with the use of Atlas.ti software.

Evolution of business model

Having analyzed the interviews, we can make the proposition as to how evolve business model of McDonald's in Ukraine and whether we have hints as to whether the evolution in other markets are the same or different, prior to extending the research to contain higher velocity markets. Ukraine is seen as low velocity market, where no need of significant changes is needed.

Despite the fact that it is Maccoop market that was called as one of the important internal constructs and a significant difference from the global business model, closely related to the decision making freedom, and a part of McDonald's business model globally, McDonald's Ukraine business model was seen as rather same business model with some differences. The changes introduced are seen as the tactical ones, or "fine tuning steps". It relates for example to pricing tactics, advertising and PR activity etc. Changes beyond the environmental factors are breaking by the limited supply chain choices described above, technological lag and slow pace of changes even for McDonald's company. McDonald's as seen as rather reactive company, not initiator of any changes. As an explanatory bridge binding the countries with different environmental velocity, the difference in country development stages, again as macroeconomical phenomenon emerged. More surprisingly was the cognition of people toward the changes in McDonald's business model in other countries, where they expressed quite different view.

The presumably higher velocity market (e.g. among the most cited came up France) bore significant differences. These markets, despite being a franchisee market unlike Ukraine, that is a part of global business model, were marked by high velocity of changes (specifically in product development, technology, and increased innovation introduction speed). The business model in higher velocity markets seems to be migrating towards the restaurant model (with introduction of table services and delivery in test modes) and more consumer centric model, never mind the increased turn to franchising. As we can see the differences and evolution comes mostly in the value propositions, rather than any other components of business model (we would deliberately simplify it as the franchisees being presented in other fields, besides being part of value offer).

Conclusions

The research shown that the factors of influence used in multidimensional approach are equally recognized by the companies, with the certain inclusions, that seems to be country situation specific (macroeconomical and geopolitical factors). One factor that was regarded much broader than was treated by the archival data analysis was Technology. Technology emerged as a broad phenomenon, less related to the kitchen development only, but by the way company makes a part of predominantly digital world, going beyond kitchen, production and resource approach. For Ukraine, all the factors of influence were described as low velocity and impact (with the exception of macroeconomy and demand that are interconnected partially), and did not made the significant impact on the business for the moment. The results obtained during the analysis of the archival data mostly correspond with those observed during the interview sessions. Despite the low velocity of environment, the number of factors was marked as the eminent challenges of

McDonald’s that could lead to the important changes. With the regards of the research question we have seen that corresponding to the hypothesis on the tactical changes in business models in low or moderate velocity environment, Ukraine that turned out as low velocity market, has little or no changes in the business model, despite the fact that it is run by the company itself and not the franchisees. Interestingly enough it gave us valuable hints on the other market development where our research would be replicated and that are presumably higher velocity market. There we could see the traces of important differences in the business model (that though are to be validated with the extension of the research to the higher velocity markets). Such changes encompass the value offer (e.g. changes to the consumer centric model, application of the restaurant model, inclusion of menu variations and high degree of customization. As work in progress we expect to replicate research in other markets with presumably higher velocity to see how the environmental velocity influences the evolution of the company business model.

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