The Franchise Business Model

Idea In Short

The franchise business model lets a franchisor grow a brand's footprint using someone else's capital, while the franchisee gets a tested business system instead of building one from scratch. McDonald's is the model's clearest example: 95 percent of its roughly 45,000 restaurants worldwide were franchised at the end of 2025, yet the company's profit depends more on rent and royalties than on burger sales. McDonald's owns the land under about 45 percent of its restaurants and the buildings under about 70 percent, then charges franchisees rent alongside a royalty on sales. Franchised locations produced margins of roughly 83 percent for McDonald's in 2025, compared with about 12 percent at the restaurants it still runs itself. The gap between those two numbers explains why franchising, not fast food, is the actual engine of McDonald's profitability.

Two sides of one agreement

Franchising rests on a relationship between two distinct parties. The franchisor owns the brand, the trademark and the operating playbook, and licenses the right to use all three to independent operators in exchange for fees. The franchisee pays for that access, typically through an upfront fee plus an ongoing royalty calculated as a percentage of sales, and in return gets a business system that has already been tested rather than one built from scratch. McDonald's formalized this arrangement decades ago, and it remains the reference point most people picture when they think of franchising.1

> A franchisee buys a business system. A franchisor, if it is smart about it, sells something closer to real estate.

At the end of 2025, roughly 95 percent of McDonald's approximately 45,000 restaurants worldwide were franchised, spanning conventional franchise agreements, developmental licenses and affiliate structures across the United States and international markets.2 That leaves McDonald's Corporation running only a small fraction of its restaurants directly, with the vast majority operated by independent franchisees who bear the daily costs of staffing, ingredients and local management.

Where the real profit sits

The detail that distinguishes McDonald's from a typical franchise system is what it charges franchisees for beyond the brand license itself. McDonald's franchisees pay a royalty of roughly 4 to 5 percent of monthly gross sales for use of the brand, operating system and supply chain, similar to royalty structures at other franchise chains. They also pay rent of roughly 10 to 15 percent of monthly gross sales, because McDonald's owns approximately 45 percent of the land and about 70 percent of the buildings its restaurants occupy.3

That rent payment is what separates McDonald's from a simple licensing business. In 2025, McDonald's generated approximately 16.55 billion dollars in franchised-restaurant revenue, made up mostly of rent and royalties, compared with roughly 10 billion dollars in sales from the restaurants it operates directly. Franchised-restaurant margins reached approximately 83 percent, against a margin of roughly 12 percent at company-operated locations before corporate expenses, because franchisees, not McDonald's, absorb the cost of food, labor and daily operations at their own restaurants.4

A relationship built on mutual dependence

Franchising works because both sides get something they could not easily build alone. The franchisor gains rapid expansion funded by franchisee capital rather than its own, since each new restaurant is financed and staffed by the operator who signs the franchise agreement rather than by corporate funds. The franchisee gains access to an established brand, a tested operating system, supply chain relationships and site selection guidance, cutting the risk associated with starting an independent restaurant business from nothing.

McDonald's provides its franchisees with training, marketing support and a supply chain built over decades, but it also holds real leverage in the relationship: because McDonald's owns the underlying real estate at most locations, a franchisee who wants to exit the system risks losing access to a location it may have spent years building customer loyalty around.

This dynamic, sometimes described as making McDonald's one of the largest commercial landlords in the world, gives the company a degree of control that a pure trademark-licensing franchisor would not have.5

What franchisees actually take on

Operating a McDonald's franchise requires a substantial upfront investment, ongoing royalty and rent payments, and adherence to detailed operational standards covering everything from food preparation procedures to store design. Franchisees run the day-to-day business, hiring and managing staff, controlling local costs and executing national marketing campaigns at the store level. In exchange, they gain access to a recognized brand, a proven menu and marketing playbook, and an existing customer base that would take years and significant capital to build independently.

The arrangement is not without friction. Franchisees have limited flexibility to deviate from corporate standards, must comply with national promotions and pricing guidance that may not always fit local market conditions, and carry the operating risk of a location that underperforms even while continuing to owe rent and royalties. Franchise agreements are, in effect, long-term partnerships, and like any partnership, they depend on both sides sharing enough common ground on goals and expectations to sustain the relationship over years or decades.

Rules built to protect the franchisee

Franchising in the United States operates under the Federal Trade Commission's Franchise Rule, which requires franchisors to give prospective franchisees a Franchise Disclosure Document at least 14 days before any agreement is signed or payment changes hands. That document has to spell out the franchisor's litigation history, initial and ongoing fees, territory restrictions and financial performance data if the franchisor chooses to provide it, giving a prospective operator a documented basis for evaluating the opportunity before committing capital. McDonald's discloses this information as part of its own franchising process, alongside additional requirements specific to its system, such as a minimum liquid capital threshold applicants must show before they can even apply. The rule does not guarantee a franchise will succeed, but it is meant to close the gap between what a franchisor knows about its own system and what a new operator can find out before signing a long-term agreement.

Beyond food service

The franchise model extends well past restaurants. Product distribution franchises, where the franchisor manufactures goods that franchisees sell under an exclusivity arrangement, describe companies like John Deere and Ford Motor. Business format franchises, the category McDonald's belongs to, license not just a product but an entire operating system, including marketing, training and supply chain support, a structure also used by Dunkin' and thousands of other chains across industries from fitness to home services. Regardless of category, the underlying economics stay consistent: the franchisor trades a portion of control and a share of ongoing revenue for capital and labor it does not have to supply itself, while the franchisee trades independence for a system with a better chance of succeeding than one built from nothing.

Key Partners

Franchisees are the central partner in this model, since they supply the capital, labor and local management that let McDonald's expand without deploying its own funds for every new restaurant. Suppliers across the food and packaging supply chain, coordinated at scale by McDonald's corporate purchasing operations, keep ingredient costs and quality consistent across tens of thousands of locations. Real estate developers and financial institutions that help finance new restaurant construction and franchisee loans support the system's physical growth. Marketing and advertising agencies help execute the national campaigns that franchisees fund collectively through their royalty payments.

Key Activities

Franchise development, including recruiting, vetting and training new franchisees, is a continuous core activity for McDonald's corporate operations. Site selection and real estate acquisition remain central, since McDonald's profitability depends heavily on choosing locations that will sustain rent payments over decades. Brand management and national marketing campaigns protect and build the value franchisees are paying to access. Supply chain coordination across thousands of restaurants ensures consistent food quality and cost control system-wide, a function individual franchisees could not replicate on their own.

Key Resources

The McDonald's brand itself, recognized globally and built over more than half a century of consistent marketing, is the company's most valuable resource. Its real estate portfolio, spanning land and buildings under a majority of its restaurants worldwide, functions as both an operating asset and a long-term investment that appreciates independently of restaurant sales. The franchise network, comprising thousands of independent operators who fund most of the system's physical footprint, is itself a resource that would require enormous capital to replicate through company-owned stores alone. McDonald's supply chain infrastructure and operational playbook, refined over decades, round out the resource base that makes the franchise offer valuable to prospective operators.

Value Propositions

For franchisees, the value proposition is access to a proven, profitable business system under a globally recognized brand, reducing the risk and time associated with building a restaurant concept independently. This includes training, marketing support, supply chain access and site selection guidance that would be costly and slow to develop alone. For McDonald's Corporation, franchising delivers rapid global expansion funded largely by franchisee capital, plus a recurring, relatively predictable revenue stream from royalties and rent that does not require the company to manage day-to-day restaurant operations at most locations.

Customer Relationships

McDonald's Corporation manages two distinct relationships: one with the end consumer buying food at a restaurant, and one with the franchisee who operates that restaurant. The consumer relationship runs through in-restaurant service, loyalty programs, mobile ordering and marketing campaigns designed to drive repeat visits. The franchisee relationship runs through ongoing support, training, periodic inspections and enforcement of operational standards, along with regular communication about new products, promotions and system-wide initiatives. Both relationships depend on consistency, since a franchisee's success drives the royalty and rent income McDonald's corporate business depends on.

Channels

Physical restaurants remain the primary channel through which McDonald's reaches consumers, spanning dine-in, drive-through and walk-up formats across tens of thousands of locations. The McDonald's app supports mobile ordering, payment and loyalty rewards, a channel that has grown significantly as digital ordering has become standard across the fast-food industry. Delivery partnerships with third-party platforms extend McDonald's reach to customers ordering from home. For reaching prospective franchisees, McDonald's relies on its own corporate franchising program, direct outreach and its established reputation as one of the most sought-after franchise opportunities in the industry.

Customer Segments

McDonald's serves value-conscious consumers seeking quick, affordable meals, spanning families, young adults and workers looking for convenient dining options across nearly every country where it operates. A distinct segment is prospective and current franchisees, who represent customers of the franchise system itself rather than of the restaurant menu, paying for the right to operate under McDonald's brand and using its operating system. International markets, served through a mix of company operations, conventional franchises and developmental licenses, form a geographically diverse segment with varying regulatory and cultural requirements. Real estate serves as an implicit segment too, in the sense that McDonald's investment decisions treat site selection with the rigor of a commercial property investor evaluating long-term tenant demand.

Cost Structure

For franchisees, the largest costs are the initial franchise fee, ongoing royalty and rent payments, plus the food, labor and operating expenses of running an individual restaurant. For McDonald's Corporation, costs include maintaining and acquiring real estate, supporting franchise development and training programs, funding national marketing campaigns and managing corporate overhead across a global operation. Because franchisees absorb the bulk of day-to-day operating costs, McDonald's corporate cost structure is lighter relative to its revenue than a company running all its restaurants directly would carry. Property taxes, maintenance obligations and occasional capital investment in aging locations represent ongoing costs tied to the real estate McDonald's owns.

Revenue Streams

Rent from franchised locations is a primary revenue stream, calculated as a percentage of each restaurant's monthly gross sales and reflecting McDonald's ownership of a majority of the land and buildings its restaurants occupy. Royalty payments, a smaller percentage of gross sales charged for the brand license and operating system, provide a second recurring revenue stream tied directly to system-wide sales performance. Sales at the smaller number of company-operated restaurants contribute a further revenue stream, though one with far thinner margins than the franchised business. Initial franchise fees, paid when new operators join the system, add a smaller but steady stream of revenue tied to the pace of new restaurant openings.

- 1McDonald's Franchising Overview
- 2McDonald's Franchised Restaurant Count
- 3McDonald's Real Estate Ownership And Rent Structure
- 4McDonald's Franchised Versus Company-Operated Margins
- 5McDonald's Landlord Scale

Summary

McDonald's shows the franchise model at its most refined: a company that appears to sell hamburgers but structures its finances around real estate and licensing income instead. Franchisees take on the operating risk, staffing, food costs and daily management, while McDonald's collects rent and royalties whether a given location has a good month or a bad one. That arrangement works because McDonald's built a system valuable enough that thousands of independent operators are willing to pay for access to it, backed by decades of brand recognition, supply chain infrastructure and site selection expertise. Not every franchise reaches that scale, and the model carries real risk for franchisees who take on debt to open a location that underperforms. For a franchisor able to build a system others want to buy into, franchising converts brand value into a recurring, asset-light income stream that scales far faster than opening company-owned stores could.