

## McDonalds Strategy



EXPRESS DISSERTATION

## Table of Contents

|      |   |    |
|------|---|----|
| 1.0. | PESTLE Analysis                                   | 1  |
| 1.1. | Political   | 1  |
| 1.2. | Economic  | 1  |
| 1.3. | Socio-Cultural                                    | 2  |
| 1.4. | Environmental                                     | 2  |
| 1.5. | Technology  | 3  |
| 1.6. | Legal   | 4  |
| 2.0. | Porter's Analysis                                 | 4  |
| 2.1. | Buyer Power                                       | 4  |
| 2.2. | Supplier Power                                    | 5  |
| 2.3. | Threat of Substitutes                             | 5  |
| 2.4. | Threat of New Entry                               | 6  |
| 2.5. | Competitive Rivalry                               | 6  |
| 3.0. | Market, CSF and Opportunities and Threats         | 8  |
| 3.1. | Market Assessment                                 | 8  |
|      | Chinese Fast Food Industry (Target SBU)           | 8  |
|      | Global Fast Food Industry                         | 8  |
| 3.2. | Critical Success Factors                          | 9  |
| 3.3. | Opportunities and Threats                         | 9  |
|      | Opportunities                                     | 9  |
|      | Threats   | 10 |
| 4.0. | Strategy Assessment                               | 10 |
| 4.1. | Bowmans's Strategy Assessment                     | 10 |
| 4.2. | Ansoff Matrix of McDonalds Future Strategy Growth | 12 |
|      | Market Penetration                                | 12 |
|      | Product Development                               | 13 |
|      |   | 2  |

|   |    |
|---|----|
| Market Development                      | 13 |
| Diversification                         | 13 |
| 4.3. Corporate Strategies               | 15 |
| 4.4. Internationalisation Strategy      | 15 |
| Think Global Act Local Option           | 15 |
| Revamping Business Model                | 15 |
| Franchisee and Joint Ventures           | 16 |
| 4.1. Implication                        | 16 |
| 4.2. Future Strategy                    | 16 |
| 5.0. Testing the alternative strategies | 17 |
| 6.0. Description of winning strategy    | 18 |
| 7.0. Risk Management                    | 18 |
| 8.0. Change Management                  | 19 |
| Appendix- I                             | 1  |
| Appendix -II                            | 1  |

### List of Tables & Figures

|   |    |
|---|----|
| Table 1: Feasibility Test .....                       | 17 |
| Table 2: Risk Management .....                        | 18 |
| <b>Figure 1: Positional Map of Industry in China</b>  | 7  |
| Figure 2: Bowman's Clock at McDonalds                 | 12 |
| Figure 3: Ansoff Market Strategy of McDonald          | 14 |
| Figure 4: Future Strategy of McDonalds is given below | 16 |

## 1.0. PESTLE Analysis

### 1.1. Political

- Increase in national minimum wage in UK by 20p an hour to £6.70 from October 2015<sup>1</sup>
- Impact: ↑ in cost of operations
- FDS's menu labelling rule in the US stresses display of calorie and other nutritional items for standard menu of all restaurants that are part of a chain with 20 or more locations<sup>2</sup>
- Impact: ↑ in cost of operations
- Change in Government in India and an increase in business confidence in the country. Positive growth in economy<sup>3</sup>
- Impact: ↑ in profitability

### 1.2. Economic

- Increase in gasoline prices in China from \$1 a litre in 2009 to \$4.50 a litre in 2013. Increase in cost of fruits and vegetables by 15-30% in 2015<sup>4</sup>.
- Impact: ↑ in price of fast food due to ↑ in supply costs and ↑ in production costs.
- Increase in the US household disposable personal income to \$13260 billion in January 2015 from \$13207.40 in 2014<sup>5</sup>.
- Impact: ↑ in the sales as people are more willing to eat out.

---

<sup>1</sup>BBC (2015). *National minimum wage to rise by 20p an hour to £6.70*. [online], Available at: <http://www.bbc.com/news/uk-politics-31907601> [Accessed 17 Mar. 2015].

<sup>2</sup>FDA (2015). *Guidance for Industry: A Labeling Guide for Restaurants and Other Retail Establishments Selling Away-From-Home Foods*. [online], Available at: <http://www.fda.gov/Food/GuidanceRegulation/GuidanceDocumentsRegulatoryInformation/ucm053455.htm>

<sup>3</sup>Shah, A. and Nair, J. R. (2015). *Big business demands more as India defends pace of change*. [online], Available at: <http://in.reuters.com/article/2015/01/12/india-economy-jaitley-gst-idINKBN0KLOC920150112> [Accessed 16 Mar. 2015].

<sup>4</sup>Barboza (2013). *Fast Growth and Inflation Threaten to Overheat Chinese Economy*. [online], Available at: [http://www.nytimes.com/2011/04/16/business/global/16yuan.html?\\_r=0&module=ArrowsNav&contentCollaction=Global%20Business&action=keypress&region=FixedLeft&pgtype=article](http://www.nytimes.com/2011/04/16/business/global/16yuan.html?_r=0&module=ArrowsNav&contentCollaction=Global%20Business&action=keypress&region=FixedLeft&pgtype=article) [Accessed 17 Mar. 2015].

<sup>5</sup>Trading Economics (2015). *United States Disposable Personal Income*. [online], Available at: <http://www.tradingeconomics.com/united-states/disposable-personal-income> [Accessed 17 Mar. 2015].

- Low inflation in UK in 2015 of 0.3% due to low oil prices and an annual windfall of £6bn for the economy<sup>6</sup>
- Impact: ↓ in cost of operations

### 1.3. Socio-Cultural

- The Food and Statistics Pocketbook<sup>7</sup> reports a 13% (from 36% in 2012 to 49% in 2013) increase in number of consumers in UK who consider the health value of food as their top priority of food choice.  
Impact: ↑ in cost of operations due to the need for including healthy food options.
- Consumer preferences for more authentic food in China. Negative role played by poorly processed food by Shanghai Hushi Food who offered expired meat products with new expiration dates<sup>8</sup>.  
Impact: ↓ in sales in the fast food industry
- CDC reports in the US of 90% of teenagers and adults consuming more than the recommended level of salts. CDC recommendations to reduce salt intake, especially fast food<sup>9</sup>.  
Impact: Possible ↓ in sales in the fast food industry

### 1.4. Environmental

- Sustainable consumption report published by the UK government recommends consumer use of products sourced through sustainable food chains<sup>10</sup>  
Impact: ↓ in sales as consumers may prefer locally sourced products

---

<sup>6</sup> BBC (2015b). *Low inflation to give UK finances '£6bn windfall*. [online], Available at: <http://www.bbc.com/news/business-31931203> [Accessed 16 Mar. 2015].

<sup>7</sup> Food Statistics Pocketbook (2013). *Food statistics pocketbook 2013*. [online], Available at: <https://www.gov.uk/government/statistics/food-statistics-pocketbook-2013> [Accessed 17 Mar. 2015].

<sup>8</sup> Forbes (2014). *McDonald's Faces Declining Sales In Asia After China Food Scandal*. [online], Available at: <http://www.forbes.com/sites/greatspeculations/2014/09/11/mcdonalds-faces-declining-sales-in-asia-after-china-food-scandal/> [Accessed 17 Mar. 2015].

<sup>9</sup> Reinberg (2012). *Americans Still Eat Too Much Salt: CDC*. [online], Available at: <http://consumer.healthday.com/public-health-information-30/centers-for-disease-control-news-120/americans-still-eating-too-much-salt-cdc-683236.html> [Accessed 17 Mar. 2015].

<sup>10</sup> UK Government (2014). *Sustainable consumption report: Follow-up to the green food project*. [online], Available at: <https://www.gov.uk/government/publications/sustainable-consumption-report-follow-up-to-the-green-food-project> [Accessed 17 Mar. 2015].

- The USDA Economic Research Service reported a 2% increase in natural and organic beef which occupied a 6.3% share in 2014 beef market indicating consumer preference for organic beef.<sup>11</sup>

Impact: ↓ in sales in the fast food industry as consumers may move to organic food.

- China, a leader in emission of CO<sub>2</sub> by emitting 9.0% in 2011 to reach 8,715 million metrics of CO<sub>2</sub> has promised to increase its use of energy from zero-emission sources to 20% by 2030<sup>12</sup>.

Impact: Impact: ↑ in cost of operations due to possible need to include energy efficient practices.

## 1.5. Technology

- Use of new technologies like ECG authenticated payment systems in Canada to provide new options for payment.<sup>13</sup>

Impact: Possible ↑ in sales in the fast food industry and cost of adopting these systems.

- UK shops providing consumers with options to customise burgers and order food using their phones<sup>14</sup>.

Impact: Impact: Possible ↑ in sales in the fast food industry

- Chinese consumers used contactless payment for \$8 billion in 2014 which was up from about \$900 in 2013<sup>15</sup>.

Impact: Possible ↑ in sales in the fast food industry and efficiency of operations due to ↓ in time for sales transactions.

---

<sup>11</sup> Walker (2015). *Nutritional value of organic vs. conventional beef*. [online], Available at: [http://www.farmandranchguide.com/news/livestock/nutritional-value-of-organic-vs-conventional-beef/article\\_a9750fe2-c746-11e4-bde1-13ad86543edd.html](http://www.farmandranchguide.com/news/livestock/nutritional-value-of-organic-vs-conventional-beef/article_a9750fe2-c746-11e4-bde1-13ad86543edd.html) [Accessed 17 Mar. 2015].

<sup>12</sup> Taylor (2014). *US and China strike deal on carbon cuts in push for global climate change pact*. [online], Available at <http://www.theguardian.com/environment/2014/nov/12/china-and-us-make-carbon-pledge>[Accessed 17 Mar. 2015].

<sup>13</sup> FineXtra (2014). *Canadian banks to test heartbeat bracelet for contactless payments*. [online], Available at <http://www.finextra.com/news/fullstory.aspx?newsitemid=26660> [Accessed 17 Mar. 2015].

<sup>14</sup> Sparkes, M. (2014). *McDonald's will allow customers to build their own burgers*. [online], Available at <http://www.telegraph.co.uk/technology/news/11284762/McDonalds-will-allow-customers-to-customise-burgers.html> [Accessed 17 Mar. 2015].

<sup>15</sup> Mobile Payments World (2014). *\$8 billion Chinese contactless transactions in 2014*. [online], Available at <http://www.mobilepaymentsworld.com/8-billion-chinese-contactless-transactions-in-2014/> [Accessed 17 Mar. 2015].

## 1.6. Legal

- Increasing need for food hygiene training in the UK and implementation of food hygiene charts<sup>16</sup>

Impact: ↑ in cost of operations

- Impact of lawsuits in the US on fast food joints on encouraging obesity in children<sup>17</sup>.

Impact: ↓ in profitability

- Adoption of the new EU food labelling which identifies 14 allergens to be included by fast food and other restaurants<sup>18</sup>.

Impact: ↑ in cost of operations

## 2.0. Porter's Analysis

The SBU focus is on China.

### 2.1. Buyer Power

- Lack of switching costs for consumers as multiple options available<sup>19</sup>
- Concerns of food safety in the \$200bn fast-food industry<sup>20</sup>
- Product dispensability and consumer preferences for change in product<sup>21</sup>
- Buyer trust in fast food products is low due to problems of health concern associated with avian flu<sup>22</sup>.

---

<sup>16</sup>Arnett, G., Chalabi, M. and Burn-Murdoch, J. (2013). *Hygiene ratings: an interactive map of UK food outlets*. [online], Available at: <http://www.theguardian.com/news/datablog/interactive/2013/jul/26/food-outlets-hygiene-interactive-map-uk> [Accessed 17 Mar. 2015].

<sup>17</sup>Mello, M. M., Rimm, E. B. and Studdert, D. M. (2003). The McLawsuit: The fast-food industry and legal accountability for obesity. *Health Affairs*, 22(6), pp.207-216.

<sup>18</sup>Tarbella (2013). *EU food safety cannot be 'at the mercy of big business'*. [online], Available at: <https://www.theparliamentmagazine.eu/articles/opinion/eu-food-safety-cannot-be-mercy-big-business>[Accessed 17 Mar. 2015].

<sup>19</sup>Mintel (2014). *Fast Food – China*. [online], Available at: <http://store.mintel.com/fast-food-china-may-2014> [Accessed 16 Mar. 2015].

<sup>20</sup>Waldeimer P (2014). *Fast food faces indigestion in China amid rapid expansion*. [online], Available at: <http://www.ft.com/intl/cms/s/0/2a2adacc-29a4-11e4-baec-00144feabdc0.html#axzz3UipVpIRH> [Accessed 17 Mar. 2015].

<sup>21</sup>Mintel (2014). *Fast Food – China*. [online], Available at: <http://store.mintel.com/fast-food-china-may-2014> [Accessed 16 Mar. 2015].

<sup>22</sup>Euromonitor (2014). *Fast Food in China*. [online], Available at: <http://www.euromonitor.com/fast-food-in-china/report> [Accessed 17 Mar. 2015].

## **Implication: Moderate Power exerted by Buyers in China**

### **2.2. Supplier Power**

- Labour intensive industry with wages forming 25-30% of costs. Minimum wage increase in China is expected to increase costs for suppliers<sup>23</sup>
- Oligopoly threat faced by suppliers in China with increasing options available for fast food industry<sup>24</sup>
- Increase in cost of raw material in China. 1/3rd of companies report that there is a need to raise cost of product by 10-15% due to cost of raw material<sup>25</sup>.
- Safety Concerns: Increasing focus on food safety after the ShanghaiHusi Food scandal<sup>26</sup>.

## **Implication: Low Power exerted by Suppliers in China**

### **2.3. Threat of Substitutes**

Consumer preferences for convenient make at home readymade food which is a cheaper alternative including instant noodles and microwavable products<sup>27</sup>

Consumer choice of healthier food options like organic foods in China<sup>28</sup>

Consumer preferences for less oil and fat containing food and more natural food<sup>29</sup>

## **Implications: Moderate Power Exerted by Substitute Products in China.**

---

<sup>23</sup>Sonnand (2014). *China continues to raise its minimum wage—but employment could be suffering*. [online], Available at: <http://qz.com/288178/china-continues-to-raise-its-minimum-wage-but-employment-could-be-suffering/> [Accessed 16 Mar. 2015].

<sup>24</sup>Euromonitor (2014). *Fast Food in China*. [online], Available at: <http://www.euromonitor.com/fast-food-in-china/report> [Accessed 17 Mar. 2015].

<sup>25</sup>Global Sources n.d. *Expect higher China prices in months ahead*. [online], Available at: <http://www.globalsources.com/SITE/CHINA-SURVEY-HIGH-RAW-MATERIAL-COST.HTM> [Accessed 17 Mar. 2015].

<sup>26</sup>Forbes (2014). *McDonald's Faces Declining Sales In Asia After China Food Scandal*. [online], Available at: <http://www.forbes.com/sites/greatspeculations/2014/09/11/mcdonalds-faces-declining-sales-in-asia-after-china-food-scandal/> [Accessed 16 Mar. 2015].

<sup>27</sup>Euromonitor (2014). *Fast Food in China*. [online], Available at: <http://www.euromonitor.com/fast-food-in-china/report> [Accessed 16 Mar. 2015].

<sup>28</sup>Harber, M. (2015). *Organic produce demand increases in Hong Kong -- good news for Oregon ag exporters*. [online], Available at: [http://www.oregonlive.com/business/index.ssf/2015/03/organic\\_produce\\_demand\\_increas.html](http://www.oregonlive.com/business/index.ssf/2015/03/organic_produce_demand_increas.html) [Accessed 17 Mar. 2015].

<sup>29</sup>Malay Mail (2015). *Western food firms face new challenges in health-conscious China*. [online], Available at: <http://www.themalaymailonline.com/features/article/western-food-firms-face-new-challenges-in-health-conscious-china> [Accessed 17 Mar. 2015].



## 2.4. Threat of New Entry

- Franchise regulations by the Chinese Ministry of Commerce requires pilot locations before expansion which makes it difficult to expand<sup>30</sup>
- Market entrants face barriers including price wars and promoting products which are culturally more relevant<sup>31</sup>.
- The product is undifferentiated and there is limited intellectual property involved<sup>32</sup>

**Implication: Threat of new entrants is low for Chinese entrants but moderate for International entrants**

## 2.5. Competitive Rivalry

- Chinese fast food industry is already a \$200bn market with numerous international and national brands like KFC, Yum Foods and McDonalds. Market is dominated by Burger King and McDonalds<sup>33</sup>
- Ease of expansion is high after initial expansion.<sup>34</sup>
- Chinese style fast food occupies majority of market shares.<sup>35</sup>
- Players of different size in the market are focused on fast food profitability.<sup>36</sup>
- Similarity of players is high along with number of players.<sup>37</sup>

---

<sup>30</sup>MCP (2002). *Provisions on Pilot of Commercial Foreign-Investment Enterprises*. [online], Available at: <http://english.mofcom.gov.cn/article/policyrelease/aaa/200211/20021100049419.shtml> [Accessed 17 Mar. 2015].

<sup>31</sup>Waldmier (2014). *Fast food faces indigestion in China amid rapid expansion*. [online], Available at: <http://www.ft.com/intl/cms/s/0/2a2adacc-29a4-11e4-baec-00144feabdc0.html#axzz3UipVpIRH> [Accessed 17 Mar. 2015].

<sup>32</sup>Mintel (2014). *Fast Food – China*. [online], Available at: <http://store.mintel.com/fast-food-china-may-2014> [Accessed 17 Mar. 2015].

<sup>33</sup>Waldmier (2014). *Fast food faces indigestion in China amid rapid expansion*. [online], Available at: <http://www.ft.com/intl/cms/s/0/2a2adacc-29a4-11e4-baec-00144feabdc0.html#axzz3UipVpIRH> [Accessed 17 Mar. 2015].

<sup>34</sup>PR News Wire (2015). *Snack Food Industry Markets in China*. [online], Available at: <http://www.prnewswire.com/news-releases/snack-food-industry-markets-in-china-300048524.html>[Accessed 16 Mar. 2015].

<sup>35</sup>ibid

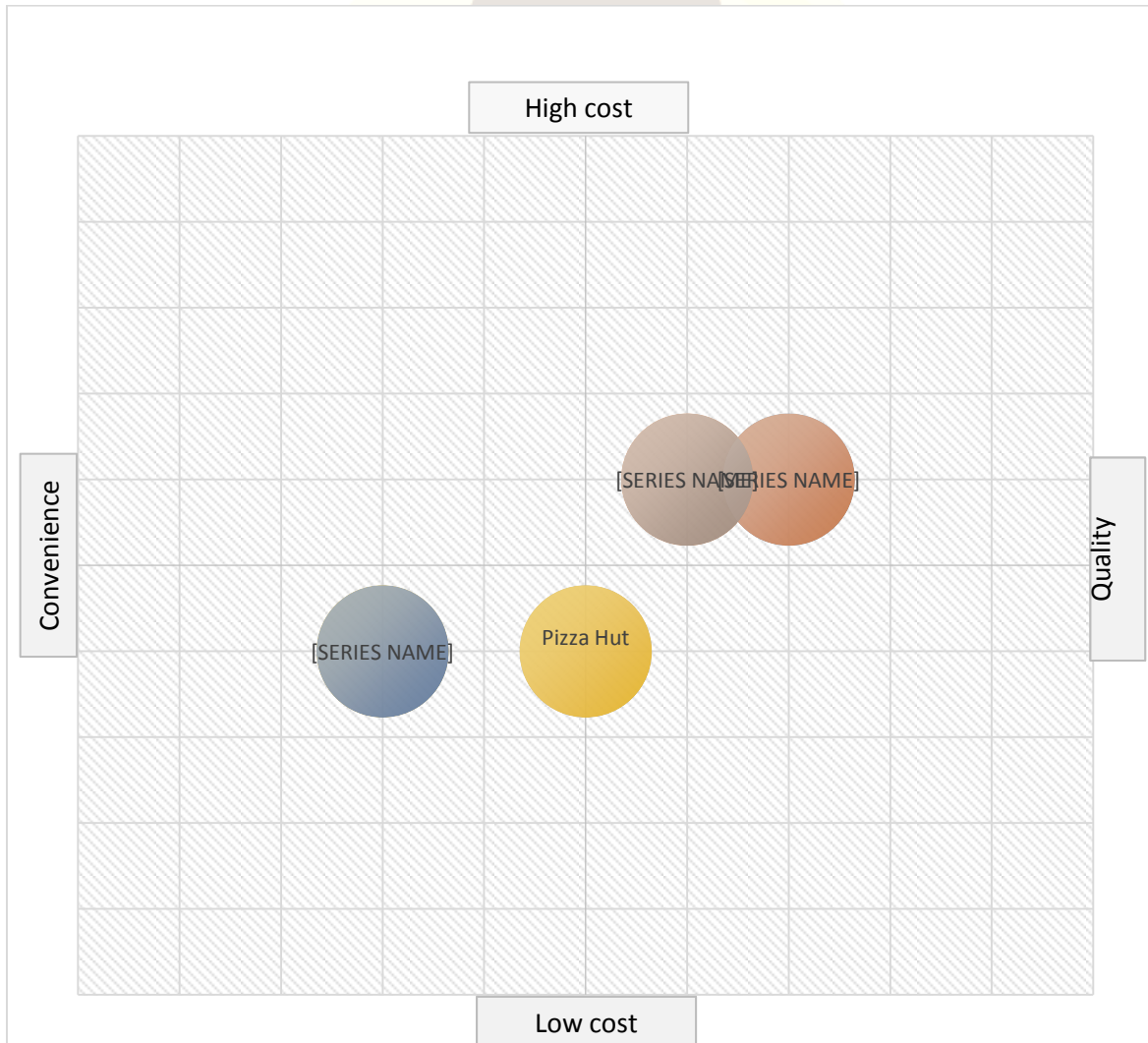
<sup>36</sup>Mintel (2014). *Fast Food – China*. [online], Available at: <http://store.mintel.com/fast-food-china-may-2014> [Accessed 17 Mar. 2015].

<sup>37</sup>ibid

**Implication: Competitive Rivalry in the Chinese Market is high.**

From the above assessment the consumer preferences based on convenience and authenticity along with choice of high and low price are used to position buyers in the SBU as presented in the figure below. This report concludes that China is a good strategic business unit to remain in business. However, continued investment is not advisable as consumer preferences for Chinese style fast food restaurants and increasing consumer preferences for more healthy options. Industry players should continue their existing operations and look to profit from optimising operations.

**Figure 1: Positional Map of Industry in China**



### 3.0. Market, CSF and Opportunities and Threats

#### 3.1. Market Assessment

##### ***Chinese Fast Food Industry (Target SBU)***

- Chinese fast food market is expected to generate total revenue of CNY960.4 billion in 2018. It is expected that in 2012-2015 there is an expected compounded annual growth rate (CAGR) of 6%. In comparison, the Japanese market had a CAGR of 1.3% and the Indian market has a CAGR of 7.3%<sup>38</sup>.
- Market volume by the end of 2016 is expected to rise to \$107.1 billion<sup>39</sup>.
- Slower growing economy and increasing market concentration has predicted a deceleration of sales for Yum, Burger King and McDonalds. Most international operators are looking to reduce their forecast volume of restaurants<sup>40</sup>.
- Same store sales are down for McDonalds and other fast food outlets due to effects of food safety and consumer preferences for Chinese style fast food<sup>41</sup>

##### ***Global Fast Food Industry***

- Growth in the global fast food industry over the last five years despite warnings relating to obesity risk, salt intake and other nutritional content.
- Consumer preferences for limited service restaurants is high with a rise from 80% in 2009 to 85% of fast food industry revenue worldwide<sup>42</sup>
- Revenue from the industry expected to grow at an annual rate of 3.5% to \$551.0 billion in 2014<sup>43</sup>

---

<sup>38</sup>Euromonitor (2014). *Fast Food in China*. [online], Available at: <http://www.euromonitor.com/fast-food-in-china/report> [Accessed 16 Mar. 2015].

<sup>39</sup>ibid

<sup>40</sup>Whitehead (2013). *Flipping and frying in China's complex fast food market*. [online], Available at: <http://www.foodnavigator-asia.com/Policy/Flipping-and-frying-in-China-s-complex-fast-food-market> [Accessed 16 Mar. 2015].

<sup>41</sup>Livemint (2015). *McDonald's January sales dragged down by China, Japan*. [online], Available at: <http://www.livemint.com/Companies/lJerURWuY0oEcOmLX3qnxO/McDonalds-January-sales-dragged-down-by-China-Japan.html> [Accessed 16 Mar. 2015].

<sup>42</sup>IBIS (2015). *Global Fast Food Restaurants Market Research Report*. [online], Available at: <http://www.ibisworld.com/industry/global/global-fast-food-restaurants.html> [Accessed 16 Mar. 2015].

<sup>43</sup>IBIS (2015). *Global Fast Food Restaurants Market Research Report*. [online], Available at: <http://www.ibisworld.com/industry/global/global-fast-food-restaurants.html> [Accessed 17 Mar. 2015].

### 3.2. Critical Success Factors

#### **Brand Value Promotion**

Consumers need for better food quality control and improved authenticity<sup>44</sup>

Consumer expect cultural diversity in food offering from International brands<sup>45</sup>

#### **Customer Service Innovation**

Consumers look for quality in service<sup>46</sup>

Innovative service environment to meet consumer preferences<sup>47</sup>

Use of Chinese elements in in new generation outlets is preferred<sup>48</sup>

#### **Digitisation**

Growth in online video market in China with a total transaction value of RMB23.97 billion(US\$3.88 billion) in 2014 provides opportunity for fast food industry giants to use digital tools to market.<sup>49</sup>

Chinese people are spending MB230.96bn (\$37.59bn) in Q3 of 2014 indicating increase in mobile shopping preferences.<sup>50</sup>

### 3.3. Opportunities and Threats

#### **Opportunities**

- Consumer demand for nutritionally healthy food<sup>51</sup>
- Positive business environment in emerging markets like India<sup>52</sup>

---

<sup>44</sup>Hornby (2014). *Rapid China expansion comes back to bite western food chains*. [online], Available at: <http://www.ft.com/intl/cms/s/0/a3d715d6-139f-11e4-8244-00144feabdc0.html#slide0> [Accessed 16 Mar. 2015].

<sup>45</sup>Sun (2014). *Fast-food chains reinvent themselves as Chinese tastes evolve*. [online], Available at: <http://www.scmp.com/business/china-business/article/1556072/fast-food-chains-reinvent-themselves-chinese-tastes-evolve> [Accessed 17 Mar. 2015].

<sup>46</sup>Ibid

<sup>47</sup>Hornby (2014). *Rapid China expansion comes back to bite western food chains*. [online], Available at: <http://www.ft.com/intl/cms/s/0/a3d715d6-139f-11e4-8244-00144feabdc0.html#slide0> [Accessed 17 Mar. 2015].

<sup>48</sup>Ibid

<sup>49</sup>Cecilia (2015). *China Online Video Market in 2014*. [online], Available at: <http://www.chinainternetwatch.com/12621/online-video-market-2014/> [Accessed 17 Mar. 2015].

<sup>50</sup>Moth (2014). *20+ stats that show the state of mobile marketing in China*. [online], Available at: <https://econsultancy.com/blog/65895-20-stats-that-show-the-state-of-mobile-marketing-in-china/> [Accessed 17 Mar. 2015].

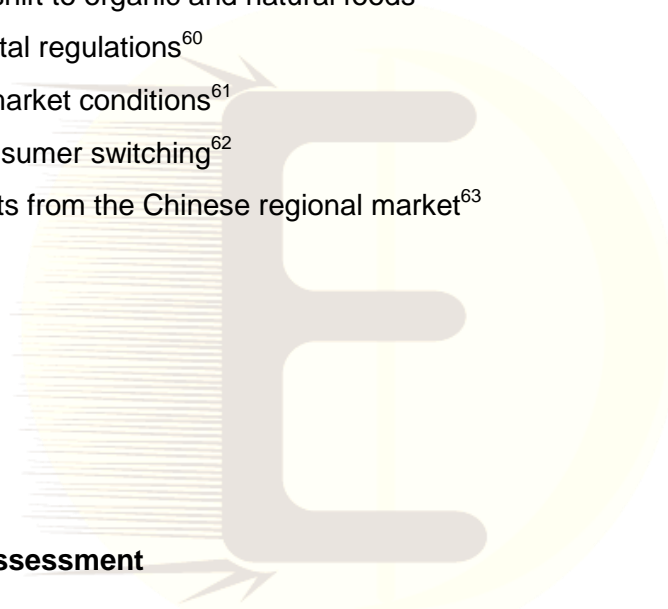
<sup>51</sup>PESTLE (Socio-Cultural)

<sup>52</sup>PESTLE (Political)

- Reduction in operational costs in developed countries<sup>53</sup>
- Increasing cultural diversity and authentic food<sup>54</sup>
- Product differentiation to reduce threats of rivalry<sup>55</sup>
- Innovative product delivery<sup>56</sup>
- New modes of product ordering and payment<sup>57</sup>

### **Threats**

- Increase in cost of operations due to rise in cost of production and wages<sup>58</sup>
- Consumer shift to organic and natural foods<sup>59</sup>
- Governmental regulations<sup>60</sup>
- Saturated market conditions<sup>61</sup>
- Ease of consumer switching<sup>62</sup>
- New entrants from the Chinese regional market<sup>63</sup>



## **4.0. Strategy Assessment**

### **4.1. Bowmans's Strategy Assessment**

Grant reports that the use of the Bowman's strategy clock helps determine the strategic focus of the organisation based on cost (low cost), differentiation (high differentiation), hybrid or non-competitive strategies. The McDonalds's assessment of Bowman's clock is seen below.

<sup>53</sup>PESTLE (Economic)

<sup>54</sup>PESTLE (Socio-Cultural)

<sup>55</sup>Porters Five force

<sup>56</sup>CSF

<sup>57</sup>PESTLE (Technological)

<sup>58</sup>PESTLE (Economic and Political)

<sup>59</sup>PESTLE (Socio-Cultural)

<sup>60</sup>PESTLE (Legal)

<sup>61</sup>Porters Five Force

<sup>62</sup>ibid

<sup>63</sup>ibid

- Strategy 2: McDonalds promotes **low cost strategy** in emerging markets like India, Philippines and Vietnam by reducing the number of value meal promotions and continuing the dollar menu in these countries<sup>64</sup>.
- Strategy 3: Supplementation of existing low cost food with high quality, coffee and health drinks in mature markets like the US and UK. McDonalds adopts a **hybrid strategy** in developed countries.<sup>65</sup>
- Strategy 4: McDonalds in the UK improved their **product differentiation** by improving the quality of burger, reducing the salt content of its fries and introducing healthier food options in an effort to differentiate from other fast food companies<sup>66</sup>.
- Strategy 5: McDonalds has adopted a differentiated focus in Australia with the launch of a sandwich and a salad shop to cater to consumers who are looking for a niche product. Such an approach can help generate success given the brand reputation<sup>67</sup>.

The following figure summarises this perspective.

EXPRESS DISSERTATION

---

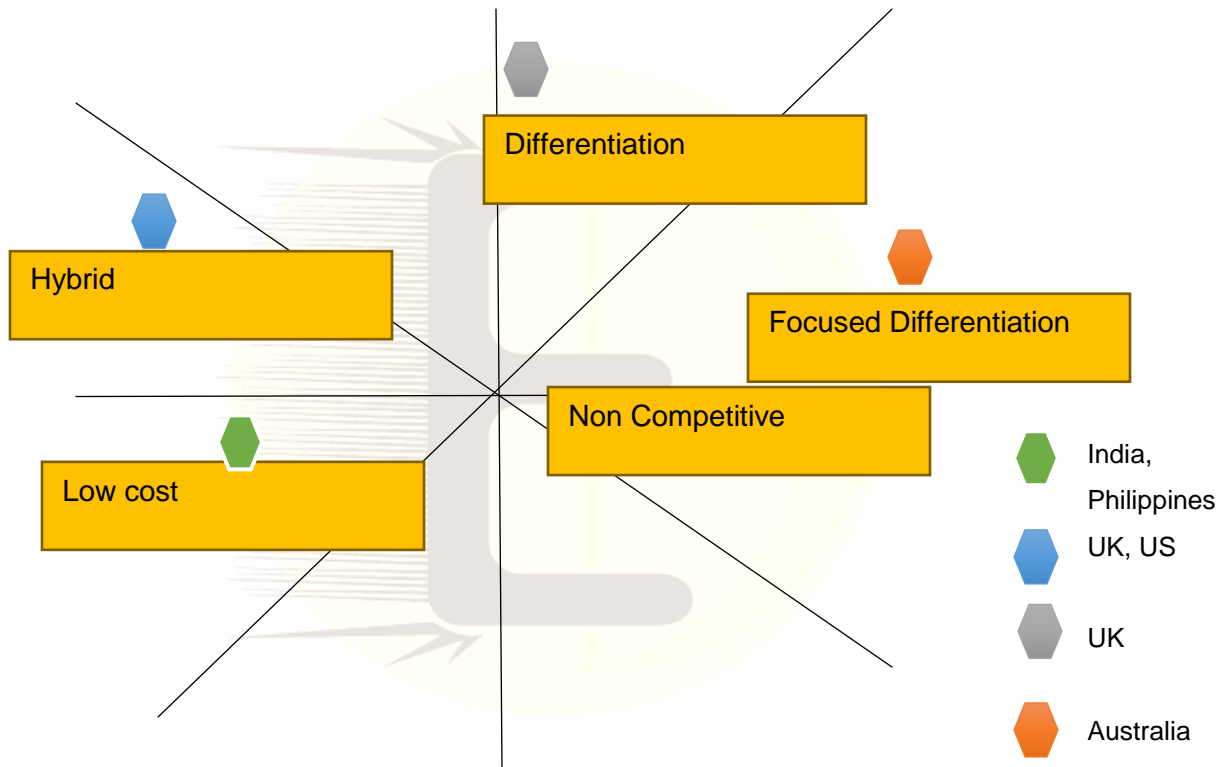
<sup>64</sup> Strom (2015). *McDonald's modifies business strategy as sales, earnings drop*. [online], Available at: [http://www.business-standard.com/article/international/mcdonald-s-modifies-business-strategy-as-sales-earnings-drop-115012400685\\_1.html](http://www.business-standard.com/article/international/mcdonald-s-modifies-business-strategy-as-sales-earnings-drop-115012400685_1.html) [Accessed 17 Mar. 2015].

<sup>65</sup> Forbes (2013). *Starbucks And McDonald's Winning Strategy*. [online], Available at: <http://www.forbes.com/sites/panosmourdukoutas/2013/04/25/starbucks-and-mcdonalds-winning-strategy/> [Accessed 16 Mar. 2015].

<sup>66</sup> Maidment (2015). *McDonald's new CEO has a modern strategy to fix the brand*. [online], Available at: <http://www.businessinsider.com/r-the-burger-loving-brit-mcdonalds-new-ceo-takes-on-sales-slump-2015-2?IR=T> [Accessed 17 Mar. 2015].

<sup>67</sup> Sun Daily (2014). *New McCafe concept in Australia serves tofu, pulled pork and eggplant salad*. [online], Available at: <http://www.thesundaily.my/news/1281423> [Accessed 17 Mar. 2015].

**Figure 2: Bowman's Clock at McDonalds**



#### **4.2. Ansoff Matrix of McDonalds Future Strategy Growth**

##### ***Market Penetration***

McDonalds currently operates in over 119 countries in more than 36000 stores. McDonalds has increased market penetration by increasing its visibility in developed markets like UK by

supporting events like Olympics and Football to improve volunteering and grass roots programme<sup>68</sup>.

### **Product Development**

McDonalds has also increased its menu options to include carrot sticks, fruit bags, and drinks such as Fruitzz, semi-skimmed organic milk, and mineral water. To improve consumer reach and offer better choice, McDonalds UK has adopted product development approach where the Big Mac is accompanied by high quality coffee and health drinks along with better quality of food. The McDonald's efforts to reduce salt content in its fries is one such option. Another clear strategy of product development is the collaboration with Disney for Happy Meals<sup>69</sup>.

### **Market Development**

McDonalds adopted a think global act local approach to penetrate different markets and offering new products<sup>70</sup>.

### **Diversification**

McDonalds is adopting a product diversification approach in Australia by launching a new cafe, The Corner. The organisation is moving beyond its fast food options to offer healthy alternatives including Moroccan roast chicken breast, chipotle pulled pork, brown rice, pumpkin, lentil and eggplant salads and sandwiches and healthy drinks. McDonalds considers is a new and different product segment and has launched it in one market<sup>71</sup>.

The following figure summarises the Ansoff's Matrix of McDonalds.

---

<sup>68</sup>Vignali, C. (2001). McDonald's: "think global, act local"--the marketing mix. *British Food Journal*, 103 (2), pp. 97-111.

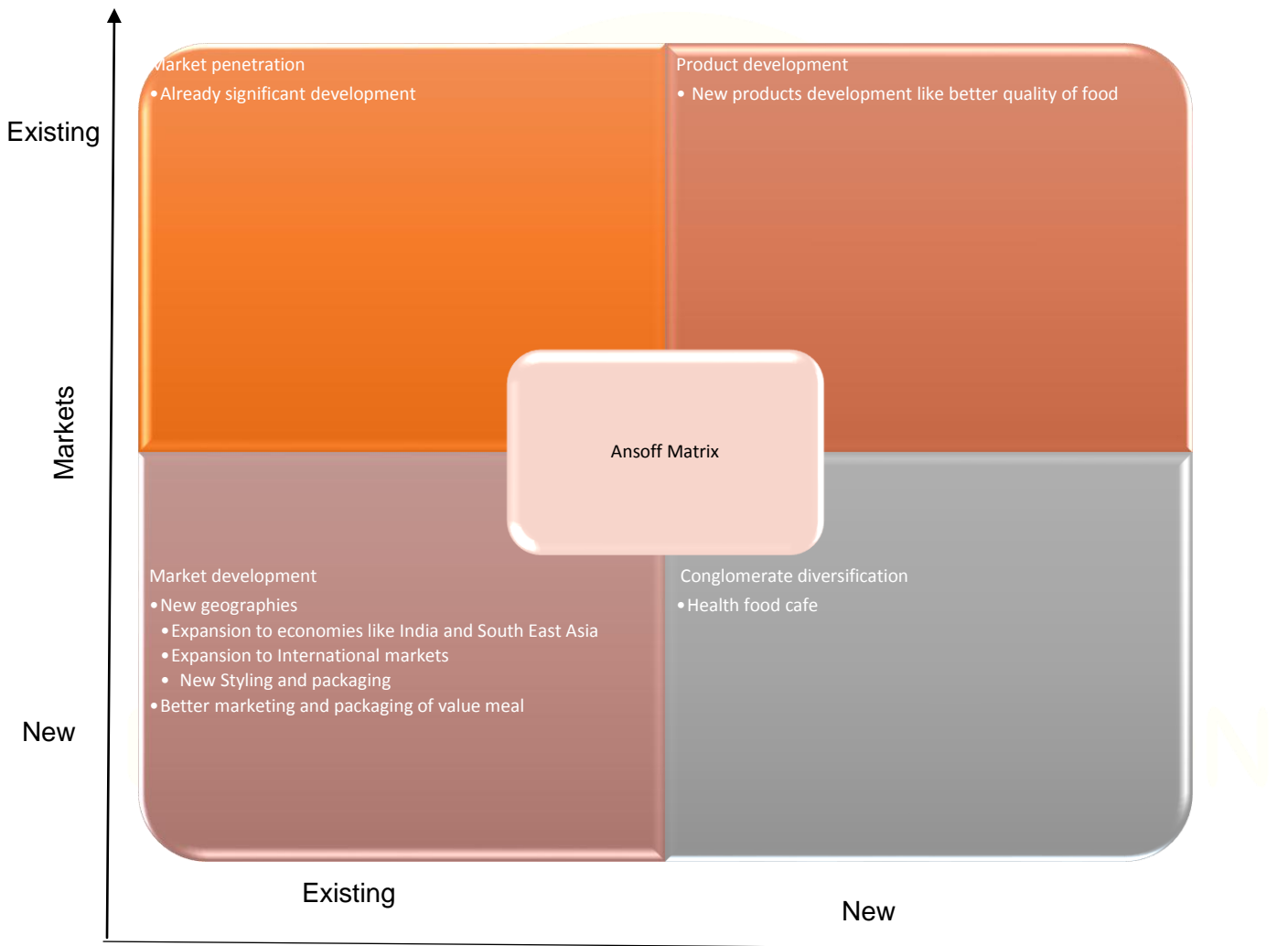
<sup>69</sup>Vizard, S. (2013). *McDonald's vows to ramp up marketing of healthy options | News | Marketing Week*. [online], Available at: <http://www.marketingweek.co.uk/news/mcdonalds-vows-to-ramp-up-marketing-of-healthy-options/4008065.article> [Accessed 16 March. 2015].

<sup>70</sup>Sinclair, J. and Wilken, R. (2009). Strategic regionalization in marketing campaigns: Beyond the standardization/globalization debate. *Continuum: Journal of Media & Cultural Studies*, 23 (2), pp. 147—157.

<sup>71</sup>Horovitz B (2015). McDonald's tests healthy cafe. [online], Available at: <http://www.usatoday.com/story/money/business/2015/01/06/mcdonalds-fast-food-restaurants-the-corner/21329109/> [Accessed 15 Mar. 2015].



**Figure 3: Ansoff Market Strategy of McDonald**



### 4.3. Corporate Strategies

McDonalds pursues expansion through strategic alliances and franchising as key corporate strategies. MCD divides its revenues based on income from the United States, Europe, APMEA and other countries. 65% of sales are through international operations. Franchising has been the key to McDonald's success in emerging markets like India and China<sup>72</sup>.

Strategic alliances are another way in which McDonalds has generated income. The strategic alliance of McDonalds with Coca Cola and alliances with many top organisations like Olympics Association and NFL helps promote corporate reputation<sup>73</sup>.

### 4.4. Internationalisation Strategy

#### ***Think Global Act Local Option***

McDonalds required all products across different countries to adopt the “I’m Lovin’ It” campaign to establish global presence. However, efforts were taken at the local level to adapt to the requirements of the specific country. For instance, in China 30 different menu items were adapted to meet local needs<sup>74</sup>. Clearly, McDonalds adopts measures to meet local cultural needs.

#### ***Revamping Business Model***

---

<sup>72</sup>Forbes (2013). *McDonald's Winning Strategy, At Home And Abroad*. [online], Available at: <http://www.forbes.com/sites/panosmourdukoutas/2012/04/20/mcdonalds-winning-strategy-at-home-and-abroad/> [Accessed 15 Mar. 2015].

<sup>73</sup>McCoy (2014). *McDonald's taps web strategy to bolster NFL alliance*. [online], Available at: <http://nrm.com/advertising/mcdonald-s-taps-web-strategy-bolster-nfl-alliance> [Accessed 17 Mar. 2015].

<sup>74</sup>Sinclair, J. and Wilken, R. (2009). Strategic regionalization in marketing campaigns: Beyond the standardization/globalization debate. *Continuum: Journal of Media & Cultural Studies*, 23 (2), pp. 147-157.

McDonalds is reaching out to consumers in different parts of the country by adopting a new business model where interaction of the consumer with the menu is encouraged<sup>75</sup>.

### **Franchisee and Joint Ventures**

McDonalds has also expanded in China by adopting a Joint Venture approach by operating with Chinese oil giant Sinopec<sup>76</sup>. Franchisee options are most effective in most emerging countries

#### **4.1. Implication**

An assessment of the emerging environment shows that though there has been good CAGR in the 21<sup>st</sup> century the market may have reached maturity and therefore a deceleration in growth is expected. McDonalds may therefore look to stop options for expansion and look at operational cost optimisation. There is a positive increase in global fast food industry value and a positive expectation of growth. However, changing consumer expectations from the food and stress on quality of food may result in McDonalds focusing on innovative food delivery, taste and possible health food options as part of their menu.

#### **4.2. Future Strategy**

**Figure 4: Future Strategy of McDonalds is given below**

---

<sup>75</sup>Maidment (2015). *McDonald's new CEO has a modern strategy to fix the brand*. [online], Available at: <http://www.businessinsider.com/r-the-burger-loving-brit-mcdonalds-new-ceo-takes-on-sales-slump-2015-2?IR=T> [Accessed 15 Mar. 2015].

<sup>76</sup>NRE online (2006). *China Play*. [online], Available at: <http://nreionline.com/mag/china-play> [Accessed 16 Mar. 2015].

# SBU:China

**Market Penetration:** Market penetration is difficult given the diversity and fragmentation in the market. McDonalds should established a tiered approach to supplier management to achieve better growth in this region.

**Product Development:** McDonalds should look to include Chinese products as part of its menu as Chinese fast food restaurants are showing organic growth.

**Market Development:** Improve product promotion and sales by using mobile technology, contactless payment and social media marketing

# Corporate

**Diversification:** Expand the concept of healthy lifestyle café in other developed markets like US and UK

**Product Development:** Possible introduction of new products in the market and change the menu in a short cycle to keep consumers interested

**Consolidation:** Consolidate operations in markets where store level sales are low

**Market Development:** Improve innovative service provision and develop products to meet the cultural needs of separate countries

**Do nothing:** Organic growth in developed markets.

## 5.0. Testing the alternative strategies

Suitability test<sup>77</sup>

Options passing suitability test: 1,3,4, 5 and 8.

Acceptability test<sup>78</sup>

Options passing acceptability test 2,4 and 6

**Table 1: Feasibility Test**

---

<sup>77</sup>See appendix 1

<sup>78</sup>See appendix 2

|          | Financials   | Resource Development   |
|----------|--|--|
| Option 2 | Capital investment needed to develop positive strategic alliances. Prediction of long term profits by improvement in customer engagement. No short term profits expected | Need for community engagement managers and brand managers in developing countries. Focus on local talent to improve options for growth |
| Option 3 | Capital investment needed to increase the level of oversight by the parent organisation.   | More safety inspectors and oversight managers needed.  |
| Option 4 | Extensive capital investment needed to promote and adopt technology.   | Employee training in new trends needed   |
| Option 6 | Moderate capital investment required.  | Employee training in preparing and serving healthy food needed   |

## 6.0. Description of winning strategy

The research supports the adoption of option 6 as the winning strategy given the global consumer preferences for healthy food, greater governmental oversight on nutritional content of fast food and an increasing emergence of health consciousness in emerging markets like India and China. The report concludes that McDonalds should target option 6 as the resource development activities as well as the amount of capital investment needed is relatively low. It is reported that McDonalds should look at both India and China as potential markets to improve the health quality as well as the variety of foods.

## 7.0. Risk Management

### Table 2: Risk Management

| <b>Risk</b>   | <b>Address risk</b> | <b>Action</b>  |
|---|---------------------|--|
| Employee inability to adopt to new needs of customers | Mitigation          | Providing employees with training                                    |
| Inability to find the required man power              | Mitigation          | Increasing training and recruitment drives                           |
| High level of rivalry in the market                   | Mitigation          | Updating the menu and providing value for money option               |
| Increasing threats from local organisations           | Mitigation          | Providing a mix of local and western food to meet local competition. |

## 8.0. Change Management

- Intense competition: McDonalds should offer new product options and better service to meet the competition related threats
- Technology: Slow adoption of technology in the form of operational improvements to help support changing needs of customers.
- Customer Health promotion: Consumer need for good health foods should be supported by providing new product options.
- Employee training: Employees should be trained to meet the needs of new consumers and the expansion of the product offering.

**Appendix- I**

Suitability Test

SUB

|  | Strengths   | Weakness   | Opportunity   | Threat   |  |
|--|---|--|---|--|--|
|  | <ol style="list-style-type: none"> <li>2. Established markets</li> <li>3. Product priced for local market</li> <li>4. Synergistic supply chains</li> <li>5. Positive share in market</li> <li>6. Good CSR activities</li> </ol> | <ol style="list-style-type: none"> <li>1. Employee complaints of low wages</li> <li>2. Possible lack of food safety China</li> <li>3. Employee turnover is high due high to employment of part-time employees</li> <li>4. Low product differentiation</li> <li>5. Rising complaints of fat and salt content in food</li> </ol> | <ol style="list-style-type: none"> <li>1. Consumer demand for nutritionally healthy food</li> <li>2. Positive growth in consumer disposable income</li> <li>3. Increasing cultural diversity and authentic food</li> <li>4. Possibility of improving customer engagement</li> <li>5. New modes of product ordering and payment</li> </ol> | <ol style="list-style-type: none"> <li>1. Increase in cost of operations due to rise in cost of production and wages</li> <li>2. Consumer shift to organic and natural foods</li> <li>3. Governmental regulations</li> <li>4. Consumer switch to chinese fast food products</li> <li>5. New entrants from the Chinese regional market</li> </ol> |  |

|   |   |   |                                 |                                   |                      |
|---|---|---|---------------------------------|-----------------------------------|----------------------|
| 1 | Take advantage of all strengths (+5)      | May overcome 3 (+1)                     | Take advantage of 2 (+1)        | Vulnerable 2,4 and reduces 1 (-1) | <b>+6 (Accepted)</b> |
| 2 | Does not take advantage of strengths (-5) | May worsen 2 and 3(-2)                  | Take advantage of 4 and 5 (+2)  | Vulnerable 1, 2 (-2)              | <b>-7 (Rejected)</b> |
| 3 | Take advantage of 3 and 4(+2)             | May reduce 1, 2 3, and 4 but not 5 (+4) | Take advantage of 2 and 5 (+2)  | Vulnerable 4 (-1)                 | <b>7 (accepted)</b>  |
| 4 | Take advantage of 1 and 5(+2)             | May overcome 1, 3 (+2)                  | Do not take advantage of 3 (-1) | Vulnerable 1,3, (-2)              | <b>1 (Accepted)</b>  |

Corporate

|  | Strengths  | Weakness   | Opportunity  | Threat   |  |
|--|--|--|--|--|--|
|  | <ol style="list-style-type: none"> <li>1. Established markets</li> <li>2. Product priced for local market</li> <li>3. Synergistic supply chains</li> <li>4. Significant market share in Asia and Asia pacific</li> <li>5. Good CSR activities</li> </ol> | <ol style="list-style-type: none"> <li>1. Employee complaints of low wages</li> <li>2. Possible lack of food safety in markets like China</li> <li>3. Employee turnover is high due high to employment of part-time employees</li> <li>4. Low product</li> </ol> | <ol style="list-style-type: none"> <li>1. Consumer demand for nutritionally healthy food</li> <li>2. Positive business environment in emerging markets like India</li> <li>3. Increasing cultural diversity and authentic food</li> <li>4. Innovative</li> </ol> | <ol style="list-style-type: none"> <li>1. Increase in cost of operations due to rise in cost of production and wages</li> <li>2. Consumer shift to organic and natural foods</li> <li>3. Governmental regulations</li> <li>4. Ease of consumer switching</li> <li>5. New entrants</li> </ol> |  |



|   |   |  |  |                                   |                      |
|---|---|--|--|-----------------------------------|----------------------|
|   |   | 5. differentiation<br>5. Rising complaints of fat and salt content in food | product delivery<br>5. New modes of product ordering and payment | from the Chinese regional market  |                      |
| 5 | Take advantage of all strengths (+5)      | May overcome 3 (+1)  | Take advantage of 2 (+1)   | Vulnerable 2,1 and reduces 2 (-1) | <b>+6 (Accepted)</b> |
| 6 | Does not take advantage of strengths (-5) | May worsen 2 and 3 (-2)  | Take advantage of 4 (+1)   | Vulnerable 1, 2 (-2)              | <b>-6 (Rejected)</b> |
| 7 | Take advantage of 3 and 4 (+2)            | May reduce 1, 2 3, and 4 but not 5 (+4)                                    | Take advantage of 2 (+1)   | Vulnerable 4 (-1)                 | <b>6 (accepted)</b>  |
| 8 | Take advantage of 1 and 5 (+2)            | May overcome 1, 3 (+2)   | Do not take advantage of 3 (-1)                                  | Vulnerable 1,3, (-2)              | <b>1 (Accepted)</b>  |

EXPRESS DISSERTATION



EXPRESS DISSERTATION

## Appendix -II

### Acceptability Test

| Option |   | Stakeholder Reaction   | Conclusion      |
|--------|---|--|-----------------|
| 1      | Increase in market share by increasing number of outlets by franchising and JVS   | <p><b>Shareholders:</b> Shareholder rejection as McDonalds is operating under loss in many emerging countries</p> <p><b>Customers:</b> Customers may not visit many outlets if there are too many options</p> <p><b>Employees:</b> Employees will react positively as they get more options for employment.</p> <p><b>Government:</b> Governments in emerging countries may react positively. However, development country government may not be amenable to more outlets.</p> | <b>Rejected</b> |
| 2      | Increase in market shares by adopting a strategic alliance approach   | <p><b>Shareholders:</b> Shareholder acceptance as profitability increases</p> <p><b>Customers:</b> Customers will react positively as alliance with Olympics and football associations will help promote grassroots community programmes.</p> <p><b>Employees:</b> Employees will react positively as the corporate reputation improves</p> <p><b>Government:</b> Governments may react positively as there is community engagement.</p>                                       | Accepted        |
| 3      | McDonalds can improve its oversight over existing organisations by improving the level of involvement of the parent company | <p><b>Shareholders:</b> Shareholder acceptance as greater oversight.</p> <p><b>Customers:</b> Customers will react positively as there is better food quality and safety assurance</p> <p><b>Employees:</b> Employees will react positively as the corporate reputation improves</p> <p><b>Government:</b> Governments may react positively as there is better food quality and safety assurance</p>   | Accepted        |
| 4      | McDonalds can increase its market share by adopting innovative  | <p><b>Shareholders:</b> Shareholder rejection due to costs</p> <p><b>Customers:</b> Customers will react positively as there is better options for interaction and ordering</p> <p><b>Employees:</b> Employees may react negatively as they have to learn new technology</p> <p><b>Government:</b> Governments may react positively as there is adoption of new</p>  | Accepted        |

|   |   |  |                 |
|---|---|--|-----------------|
|   | product service provision like contactless payments, mobile application orders and other new technologies | technologies.  |                 |
| 5 | McDonalds can increase its market share by targeting its core demographics of children and teenagers      | <p><b>Shareholders:</b> Shareholder rejection due to bad corporate reputation</p> <p><b>Customers:</b> Customers will react negatively given health risks</p> <p><b>Employees:</b> Employees will react negatively given possible negative feedback</p> <p><b>Government:</b> Governments will react negatively given health risks</p> | <b>Rejected</b> |
| 6 | McDonalds can improve its product options and provide more healthy foods.                                 | <p><b>Customers:</b> Customers will react positively as there is improvement in health quality of food</p> <p><b>Employees:</b> Employees may react negatively as there is more food choice.</p> <p><b>Government:</b> Governments may react positively as overall health increases.</p>   | Accepted        |

EXPRESS DISSERTATION



EXPRESS DISSERTATION