

Global market entry strategies

[Finance](#), [Market](#)



McDonald's organization's mission becomes the cornerstone for its strategy and is necessary for the organization to assess the process identifying the objectives of each functional area. McDonalds emphasises on the accomplishment of the organisational objectives, which leads forward to its strategy. 1. Expansion: This is adopted when environment demands increase in pace of activity. Company broadens its customer groups, customer functions and the technology. This kind of a strategy had a substantial impact on internal functioning of the organization.

Modernization: Modern kitchen technology was used as the strategic tool to increase production and reduce costs in long run. Through modernization, the company aimed to gain competitive and strategic strength. (Porter, M. E. , Competitive Strategy: Techniques for analyzing industries and competitors)

2. Integration: The company started producing new products and services of its own by investing in restaurants across the U. S. Through forward integration it gained ownership over distribution and retailers, thus moving towards customers.

Fig: 3 Molecular Modelling Of Long Term Approach of McDonald's Licensing: Licensing permits a company in the target country to use the property of the licensor. Such property usually is intangible, such as trademarks, patents, and production techniques. McDonalds (licensee) pays a fee in exchange for the rights to use the intangible property and possible for technical assistance. Licensing has the potential to provide a very large ROI since this mode of foreign entry also does require additional investments.

However, since the licensee produces and markets the product, potential returns from manufacturing and marketing activities may be lost. Licensing

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policies, quota restrictions, import duties, Forex regulations, restrictions on FDI flows, controls on distribution and pricing of commodities together made business difficult during earlier years. The McDonalds norms compare the performance of an organization in the same industry or sector against a set of agreed performance indicators. Data on industry norms are widely available and can be found from several published sources.

Using such data and comparing an organization against others in its industry helps the organization understand its true position. Benchmarking compares an McDonalds performance against other's performance wherever that is found. When the search for best practices is limited to competitors, the process is called competitive benchmarking. The five forces framework developed by Michael Porter is the most widely known tool for analyzing the licensing environment, which helps in explaining how forces in the competitive environment shape strategies and affect performance.

The framework suggests that there are competitive forces other than direct rivals which shape up the competitive environment. These competitive forces for McDonalds are as follows: 1) The rivalry among competitors in the industry 2) The potential entrants 3) The substitute products 4) The bargaining power of suppliers 5) The bargaining power of buyers. However, these five forces are not independent of each other. Pressures from one direction can trigger off changes in another which is capable of shifting sources of competition.

These five forces are placed to understand how each of these forces affect an Industry's environment so that one can identify the most appropriate strategic position within the industry. Diversification: Diversification through

the horizontal route involved change in business definition in terms of customer functions, customer groups or alternative technology. It was done to minimize the risk by spreading over several businesses to capitalize organization strength and minimize weaknesses, to minimize threats, to avoid current instability in profit & sales and to facilitate higher utilization of resources.

Diversification strategies applied to the spreading of market risks: adding products to the existing lines of business and is viewed as analogous to an investor to “ spread the risks. ” (Hitt, Michael A, Strategic Management: Competitiveness and globalization). Rational for Diversification Enhanced Market Power- Not always market share does not necessarily translate to higher profits - greater value for owners unless the merger substantially reduces the inter-firm rivalry in the industry. The below balloon diagram analyses on developed restaurant and food markets and concentrating niche markets

Fig: 3 Financial Opportunities for McDonald's Profit Stability: New business reduced the variations in corporate profits by expanding the company's lines of business. This occurred as the core business was dependent on sales that were seasonal or cyclical. Diversification strategy was followed to avoid instability in sales and profits. Improve Financial Performance: To exploit diversification opportunities because of liquid resources far in excess of the total expansion needs or the intention of tiding over its financial problems.

(Hitt, Michael A, Strategic Management: Competitiveness and globalization).

Growth: Diversification is basically a way to grow. Unlike organic growth, which is slow, an acquisition or merger (inorganic) can deliver the results

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rather quickly since resources, skills, other factors essential for faster growth are immediately available. Counter Competitive Threats: Such a strategic move is to counter the competitive threats by reducing the intensity of competition. Organizations are driven at times towards external diversification through merger by competitive pressures.

Access to Latest Technology: Organizations have diversified their operations geographically to exploit opportunities in different regions and countries and also to take advantage of the incentives being offered by the various governments to attract investment. Joint Ventures: In joint ventures, two or more companies form a temporary partnership (consortium). Companies opt for joint venture for synergistic advantages to share risk, to diversify and expand, to bring distinctive competences, to manage political and cultural difficulty, to take technological advantage and to explore unexplored market.

(Hamel, G, Collaborate with your Competitors and Win) Strategic Alliance: When two or more companies unite to pursue a set agreed upon goals but remain independent it is known as strategic alliance. The firms share the benefits of the alliance and control the performance of assigned tasks. The pooling of resources, investment and risks occur for mutual gain. MERGER AND ACQUISITION STRATEGY The reasons for the materialization of the mergers and acquisitions is primarily concerned with long term business concerns such as competition, efficiency, marketing, product, resource and tax issues.

McDonald's approach was to gain through Reduced Competition: Acquiring a competitor is an excellent way to improve a firm's position in the marketplace. It reduces competition and allows the acquiring firm to use the <https://assignbuster.com/global-market-entry-strategies/>

target firm's resources and expertise. (Beaumont, P. B. , Applied Microeconomics for Decision Making) Cost Efficiency: Due to technology and market conditions, firms benefits from economies of scale. The assumption is that larger firms are more cost- effective than are smaller firms. Improve Earnings and Reduce Sales Variability: Improving earnings and sales stability can reduce corporate risk.

If a firm has earnings or sales instability, merging with another company may reduce or eliminate this provided the latter company is more stable.

Market and Product Line Issues: Mergers occur to gain a share of the market that the other company wants to enter. All of the target firm's experience and resources are readily available of immediate use and is the common reason for acquisitions. Acquire Resources: Firms wish to purchase the resources of other firms or to combine the resources of the two firms. These may be tangible resources such as plant and equipment, or they may be intangible resources such as trade secrets,

patents, copyrights, leases, management and technical skills of target company's employees, etc. Synergy: Economies of scope would occur if two companies combine and the combined company was more cost efficient at both activities because each requires the same resources and competencies.

(Srivastava, R. M. Strategic Planning: Formulation Of Corporate Strategy)

McDonald's invested big in acquisitions as part of corporate restructuring by which the company over took another to become the owner of the target company. The key principal behind buying the company was to create shareholders value over and above that of the sum of the two companies.

The two companies together are more valuable than two separate companies with an idea to attract companies when times are difficult which will lead to create a more competitive and cost effective company. The most essential economic theory in the success story researched is the concept of monitoring and control which involves knowing the status of a decision and control involves comparing the actual status with the plan, find out the deviations and initiating corrective actions so that the original plan can be fulfilled.

Corrective actions lie at the core of successful project management which should have a system to measure the results effectively at pre-determined intervals, comparing them with the planned results and deciding and taking corrective actions. Fig 6: Strategic Decisions at Different Levels

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