

# The strategies of mcdonalds expanding internationally three macdonald



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### **9. 3. 1 Introduction**

The biggest challenge for an multinational is to maintain its global strategy in the stint of diversity as they hit different foreign lands. The same was the biggest challenge for McDonalds when they launched into India. They faced severe Public relation crisis and it was a very difficult to come up with a solution in such a country. Some of the key variables in this relation were the suppliers, customers, government and the Global Brand image of the company itself.

McDonald Corporation was created in the year 1955, when Ray Kroc opened his first restaurant in Des Plaines, Illinois. He soon realized this success could be duplicated across the United States and beyond, if consistency and quality could be maintained. In 1957, the company adopted Quality, Service, Cleanliness and Value as its motto. Over the decades, McDonald's corporation has grown to a \$ 25 billion company and is the world's leading food service retailer with more than 30, 000 restaurants in 119 countries serving 27 million customers each day. With such high customer base and the industry they cater too, it becomes very challenging to maintain the Public Relation standards as per each country norms. This industry strives on the type of public relation one creates with the customers and various stakeholders.

The globalization, WTO, the facilitates that many governments offered for foreign organizations to enter to its markets, the availability of many suppliers worldwide for many goods and services, all these factors and other factors in behind encouraged many organization to expand globally, this

wide expansion made the responsibilities of the operation management more comprehensive and complicated, operation management means design, execution and control the organization operation through convert the resources into desired goods or services with aim to implement it based on the business strategy (Business Dictionary).

### **9. 3. 2 Background**

When McDonalds started their operations in 1948 the menu consisted of cheese burgers and hamburgers, pie, potato chips and beverages like milk, soft drinks, coffee. The cost of hamburger at that time was mere 15 cents. Now it is the largest food chain all over the world. By 1965 McDonalds had 700 restaurants. McDonalds all over the worlds are aligned by Global strategy of plan to win. This strategy focuses on price, people, customer experience, promotion and place.

It is a publicly traded company and around 80% of the McDonalds restaurants all over the world are operating on franchisee basis. Its competitors consist of Sub Way, burger king, Wendy's and YUM which run some of the very famous brands like KFC, A&W, Pizza Hut and Taco Bell. McDonalds is the industry leader in terms of sales, market cap, employees, gross and net margins. The main cited reason of McDonald's success is the quality standards they have been able to maintain all over the world despite having location constraints at some of the places. They have consistently developed new menu items thereby always attracting new sets of customer and giving enough reasons to old customer to be attached. With this challenging cut throat competition, public relations are becoming very critical for quick restaurant industry. A psychological competition right now <https://assignbuster.com/the-strategies-of-mcdonalds-expanding-internationally-three-macdonald/>

in US is the criticism these industry is facing from large obese population. This is especially true for the concept of value meals which provide extra large portion of unhealthy foods. The nutritional value of the quick restaurant segment has sparked many a campaigns and few legal actions. According to New York City department of Health a law was passed in 2008 making it mandatory for quick restaurant to post all the calorie related information against the food item on the menu boards. One of the biggest outcries has been the promotion of this food habits among the socio economic classes and the direct correlation of the obesity among the people. In response McDonalds introduced new and healthier item in the menu and shifted its marketing. With this background McDonalds entered into Singapore as a very famous brand to cater.

### **9. 3. 3 McDonald Profile**

The roots of McDonald's go back to the early 1940s when the McDonald brothers Dick and Mac opened their first restaurant in San Bernardino, California. Ray Kroc, a salesman with a flair for marketing, was so impressed by the speed at which they served people that he became their national franchise agent.

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In January 2003, McDonald's announced its first ever-quarterly loss of \$343. 8 million since it became a public company in 1965. This led McDonald's to embark upon on a new strategic course, reflecting upon a fundamental change in its approach to growing business. While it initially aimed at adding new restaurants, it now shifted its emphasis to building sales at existing restaurants. In February 2004, McDonald's Corporation announced that System wide sales for McDonald's restaurants had increased by 22. 6%, or 14. 8% as compared to the previous year. Comparable sales for McDonald's restaurants worldwide had increased by 13. 9%.

Macdonald is known as fast food company worldwide, it has over 32, 000 restaurants worldwide, approximately 75% of MacDonald's restaurants operated via franchise, therefore the nature of MacDonald business guided its performance to pay attention to the quality objective with aim to reduce the costs, as long as it exist in several countries and each country different from each other in terms of taxes row materials, suppliers etc, pay attentions to the speed objective which is the core of its business, pay attention to the flexibility objective, the exist in different nations strongly required to able to change and flexible based on the host country culture and custom.

### **9. 3. 4 Strategic Objectives**

Quality is the mirror of any organization, customers could judge about the organization based on the level of the organization quality, therefore the first step to attract customers is through quality objective which is in somehow is

to guarantee that customers will return back again, in this part MacDonald provided high quality products and services though standardize all its branches, and therefore MacDonald obtained customers satisfaction additional to made the operation more easy for the staff, for example MacDonald deal with over 20 bakeries to standardize the products in all the united states in terms of color, flavor etc (Gale/Online), the target of standardization is not only to aim to standardize the food in all restaurants but also to reduce the possibility of mistakes and therefore reduce costs too, another part of the quality objective that MacDonald provided which consider as rare in front of many restaurants is providing customers with nutrition information, thus customers can select the meal that applicable to their health (POM Report Macdonald/Online). Speed is the core of MacDonald objectives, to achieve speed objective MacDonald provide set of order channels such as drive-thru, home delivery etc, according to MacDonald CEO " McDonald's that put the " fast" in fast food, and its speed continues to be a major factor in the iconic restaurant chain's profits" (Restaurant news/Online). Flexibility which consider the secret of MacDonald Success in front of its traditional competitors, MacDonald almost managed to be flexible in all the markets its entered, the flexibility of MacDonald made kind of loyalty among customers and MacDonald due to the changes that MacDonald made it based on the customers cultures and taste, additional to the flexibility to supply from local suppliers of the host country, for example MacDonald added corn soup to the food menu in China, adopted slaughter by Islamic method in GCC countries etc, flexibility to reflect positively inside the operation through the readiness to response to any increase in the demands.

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Macdonald is one of the rare organization that succeed to balance between its operation strategic and customer demands, MacDonald combined order-winning and qualifying factors, in terms of order-winning which refer to the “customer as key reason of purchasing the product or service” (Slack, Chambers & Johnston, pp 69), MacDonald as we clarified previously its ability to be flexible for any changes based on the host county culture, in terms of the qualifying factors which refer to that “operation performance has to be above a particular level just to be consider by the customer” (Slack, Chambers & Johnston, pp 69), MacDonald paid attention to the quality aspect, and strive to make all its brunches standardized, therefore MacDonald built hamburger university to teach the franchisers how to be on the standard. Therefore MacDonald operation process aligned with the strategic objectives successfully.

### **9. 3. 5 Operation Process**

Due to the importance of the quality, speed, and cost MacDonald adopted decentralization methodology in its supply network, for example MacDonald in China deal with over 50 suppliers which covers 95% of the raw materials, another example show the (Chain Daily/Online) methodology of MacDonald supply network is MacDonald in United Kingdom, where MacDonald rely on the local market for its supply for almost 60% of the raw materials (Benfield /Online). Although MacDonald rely on outsource for most of its supplies but it maintained the quality part with aim to standardize the meal in all its branch locally and globally, thus MacDonald spent millions to found hamburger university, additional to the close training to the franchisers (AMI info/Online) with aim to ensure that its franchisers will provide the oriented

level of quality additional to the closely monitoring and supervision (Slide share/Online). In terms of location of capacity MacDonald deal with Egypt Bakery Stores to supply part of African countries additional to Saudi market, Egypt Bakery Stores has selected by MacDonald due to the strong capacity, Egypt Bakery Stores has over 180 stores regionally (Egypt Bakery Stores/Online), in terms of MacDonald in China, MacDonald selected to start its business in China market particularly in Shenzhen the economic zone of China due to the facilitates that Shenzhen offered to the foreign firms such as cheap power, freedom to hire and fire, cheap manpower, low taxes etc (Paul, pp 478). In terms of the layout MacDonald aimed to have layout that meet its competitive needs, additional to utilize the space as possible as it can in professional and safety way (Operation management/Online).

### **9. 3. 6 Utilizing Technology**

As we mentioned previously how MacDonald paid high attention to the standard and quality parts in several Dimensions, for example in Australia in terms of the documentation work such as issuing and archiving documents, every branch of MacDonald required in quarterly basis to do archive for high volume of documents such as architects, surveyors, interior decorators and designers, and these documents include restaurant layouts, design guidelines, operating procedures, style guides for internal imagery, high resolution photographs and graphics libraries, to store all these documents MacDonald used to save it in CD's, MacDonald observed that this method in somehow expensive and difficult to control, therefore MacDonald deal with Aconex, Aconex offer high technology which allow all MacDonald branch to upload all the documents in one resource (website), thus with this



technology MacDonald succeed to reduce costs and time, additional to facilitate a way to find the any documents easily. (Aconex/Online)

### **9. 3. 7 Launch in Asia (Test Market-India)**

The biggest problem McDonald faced was during the launch of its product in India was the public image it was carrying as an International food chain and not matching Indian standards. There were concerns raised about how the burgers are made in McDonalds.

Offering the cheapest burger in the world was not easy 11. In India, McDonald's chose to offer a menu that had no beef or pork items and special product formulations to accommodate the Indian culture and palate. This included developing special sauces with the use of local spices, which once again, contained no beef or pork or any of their derivatives or flavorings. Furthermore, all the vegetarian products, including the mayonnaise in vegetable burgers, were egg-less and 100% vegetarian.

Additions to the menu have been a regular feature of McDonald's in India. The product development team works on innovations in products. These are based on consumer insights and feedback obtained through extensive research. McDonald's in India conducts regular qualitative and quantitative studies, tracking the target consumer lifestyle across India, a practice that is followed internationally as well. All the new products are test-launched and following customer approval and feedback, the product is taken forward after making the necessary changes. The number of changes in the product offering is the greatest in India. To date, McDonald's has introduced 12 products to suit the Indian tastes.

When you perceive the product range as “ Nothing but the best”, providing quality to the customer requires extensive and meticulous quality control. This is a particularly difficult task in a land where a substantial amount of food produce is wasted every year due to lack of proper infrastructure and storage facilities. It was under these circumstances that McDonald’s India went about creating the cold chain infrastructure for its restaurants in the country. As McDonald’s considers the quality of its products to be of absolute importance, it sets standards for suppliers that are amongst the highest in the food industry. World over, McDonald’s believes in developing close relationships with suppliers and this is precisely what it has done in India.

### **9. 3. 8 Variables**

#### **Commitment Provided by McDonalds in India-building Suppliers within India**

In keeping with commitment of sourcing almost all the products from local country suppliers, McDonald’s tried to identify Indian business which shared the level of commitment and dedication in supplying its customers with the highest quality products. In the process, McDonald’s actually encouraged entrepreneurship, by introducing the local suppliers to its global suppliers. This association involved transferring in latest food processing technology, thereby leading to an improvement in quality standards and helping create world class manufacturing facilities in India. This was the first step towards creating the unique ‘ cold chain’.

McDonald’s suppliers of cheese, Dynamix Dairy, too, recognizing the needs of quality milk for making quality cheese, did set up a quality program for in house milk procurement. McDonald’s local supply networks through <https://assignbuster.com/the-strategies-of-mcdonalds-expanding-internationally-three-macdonald/>

Radhakrishna Foodland (P) Ltd, which operates distribution centers (DC) for McDonald's restaurants in Delhi & Mumbai. The increase in the number of restaurants, investments in multi temperature trucks and systems, which enable the tracking of demand and supply, have helped control inventories. On its part, McDonald's constantly pushes its suppliers and DC's to bring costs down. Suppliers have to hence, necessarily find ways of improving efficiencies, reducing time and cutting costs.

## **The Indian Value Proposition**

Business decisions in the company are based on emerging trends in the informal eating out industry as well as the marketplace dynamics. In the present economic environment, reviewing the external environment, macro economic factors and consumer-spending patterns is extremely important and this is reviewed along with qualitative studies. As providing value to the customer is the key, price sensitivity studies are conducted before determining the pricing. The rate of inflation is also reviewed. A penetrative pricing strategy has been adopted for most of the products to sustain long-term growth.

McDonald's definition of value was far broader than of most of the restaurants in its competition. With this objective, McDonald's India has launched a variety of options grouped under the umbrella of " Value Meal". The a la carte items (Burgers, Wraps and McCurry Pan) can be purchased with either a small drink & small fries to make up a small value meal or with a medium drink and medium fries for a medium value meal. For Rs. 10/- (net) more, the medium value meal can be " upsized" to a large Value Meal.

This offers the customer a larger selection, and also provides value to the

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customers (up to Rs. 12/- on every Value Meal) with these combinations. The 'Happy Price Menu' is a move to demonstrate to the customers that McDonald's is affordable. It aims to connect the customer with the branding, the proposition - not with the price or the product alone. Under this offering, the McAloo Tikki, Chicken McGrill, Pizza McPuff and the Soft Serve Small [Hot Fudge & Strawberry] are offered at Rs. 20. The Endeavour is to offer good food, more convenient hours, enhanced service and great value.

With the new Happy Meal which has been recently launched, the company aims at addressing the issue of value, choice and flexibility. The starting price point is Rs. 55 [net] across the country and offers a wide range of burgers to choose from, viz. in addition to McAloo Tikki, Chicken McGrill and Pizza McPuff earlier, now customers can also choose from McVeggie, McChicken and Filet-O-Fish as part of their Happy Meal. The customer is also given the option of substituting the aerated beverage for a small McShake for Rs. 8. 00 more.

### **The People and the Training-Critical to Public Relations**

Service is the key element of McDonald's operations. Every employee strived in providing 100 % customer satisfaction for every customer in every visit. This included friendly and attentive service, along with accuracy in order taking and anticipation of customer's needs.

When the Indian joint venture was formalized, the MTs were given extensive job training in Indonesia. MTs in human resources, real estate and buildings were hired and global directors worked with them to train them in the necessary areas. At McDonald's, training is combination of on-floor along

with classroom training, provided by the Learning and Development department, with exposure in various aspects of business. The projected sales of each restaurant determine its staffing requirements. On an average, every restaurant has a staff of 40-60 people, including managers. Induction training is conducted at the time of an employee's joining the organization. This was done through interactions as well as through exposure with the customer through operation training within the restaurants for a fixed period of time. The organization also provides ample opportunities of overseas training to those displaying potential. Restaurant Managers are sent to the Restaurant Leadership Program held at the prestigious Hamburger University. Similarly, employees of other departments are sent abroad for various relevant training programs.

## **The Location**

Being located in the right place is always critical in retail. McDonald's prefers to be located at a place convenient to the people. Various parameters termed as "generators" by the company are studied to gauge the kind of business that could be generated from the location. Some of the generators are residences, shopping areas, offices, entertainment, education institutions along with transit points like stations or bus depots.

Feasibility studies are done and once the location is finalized, the premises may either be bought or taken on a long-term lease. The joint venture company makes a majority of the investments. An in-house team aided by architects, interior designers and legal agencies then work on creating the restaurant.

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## **Developing the Supply Chain**

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industry. World over, McDonald's believed in development of close relationships with suppliers and this is precisely what it has done in India.

In the process, McDonald's actually encouraged entrepreneurship, by introducing the local suppliers to its global suppliers. This association involved transfer of state-of-the-art food processing technology, thereby leading to an improvement in quality standards and helping create world class manufacturing facilities in India. This was the first step towards creating the unique ' cold chain'.

## **Building the Brand**

Once the infrastructure was ready, the build-up towards the opening of the first McDonalds' restaurant in India began. A 360 approach was taken, wherein the marketing, advertising and the public relations support were garnered before the launch.

When McDonald's launched its first restaurants in India, the advertising done was largely local in nature. Teaser campaigns in local newspapers and extensive PR were used. Ronald McDonald parades also helped create excitement in the first few months of the launch. Mc Donald's had positioned its restaurant as a family restaurant and barred smoking and serving of alcohol on its premises.

In the first two years of its launch in India, the advertising worked on increasing footfalls at its restaurants. Economy pricing of products like the ice cream cone at Rs. 7, bounce back coupons with every cone and Economeals at Rs. 29, 39 and 49 played a major role in getting customers

into the restaurants. The results were apparent and resulted in a 48% increase in footfalls along with 30 % hike in the sales.

From the onset, McDonald's had positioned itself as a family restaurant and barred smoking and serving of alcohol on its premises. From the year 2000, McDonald's focused on creating a distinct image of the brand in the mind of the consumer and launched its " McDonald's main hai kuch baat" campaign. It was the first Quick Service Restaurant [QSR] brand in the country to start advertising on television. The first commercial " Stage fright" brought out the emotional bond between a father and child.

In the same year, the company aired its 1V commercial for the Rs. 7/- soft serve cone campaign, thereby establishing its value proposition. However, research also indicated that people were unaware of the food served by McDonald's. This led to the creation of an advertising campaign which focused on familiarizing customers with the food served at McDonald's. The film showed people dreaming of the food served at McDonald's, thus depicting the range of products it offered. Subsequently, in 2002, the company moved to a new tagline " To Aaj McDonald's Ho Jaye", which indicated that now McDonald's is a part of your daily life.

Consumer research also pointed out that a larger mix of offering was required in its vegetarian menu and McDonald's consciously addressed this need. The company also became aware that eating out, though gaining in frequency, was still largely a family affair. Hence, it was relegated mainly to evenings and the weekends. Another significant finding of the research was that the father, the decision-maker in the family, did not find the food served



relevant to him. It wasn't filling enough or to his taste. Taking these nuggets of information, the company worked on extending its range of products and added the Wrap [2002] and the McCurry Pan [2003] to the menu, thereby providing choice and variety as well as addressing the willingness issue that the father faced.

The ' Happy Price Menu' came close on the heels of the marketing initiative " i'm lovin' it" which was launched in September 2003. It has been designed with the purpose of connecting McDonald's with its customers in highly relevant and culturally significant ways around the world. The communication about this new offering is funky and funny and tells you that McDonald's is a great place at a great price - restricted not only to the product, but also extending to the experience. The new television commercials show that any excuse, however small, is a good enough reason to come to McDonald's. The marketing proposition, " What your bahana is?" speaks to the customer in his language, with research once again providing insights for the communication.

In an effort to bring the Golden Arches closer to the consumer, The company plans a phased roll out in the region once the operations are established. The key objective for starting deliveries is to increase convenience for the customers, so as to enable them to enjoy McDonald's products in the comfort of their homes. At the same time, it aims to make the service hassle-free and easy to use.

The concept per se, is not new, as the delivery business has been running successfully in countries like Brazil, Egypt, Indonesia and Singapore. It is also

in line with the international strategy of growing its customer base instead of increasing the number of restaurants. Furthermore, the delivery model is based on the company's own international standards and is therefore, different in some ways than other local chains. McDonald's is the first in India to have a single toll-free number which customers call to place their order. The call centre determines as to which restaurant the order should be directed.

According to Mr. Amit Jatia, Joint Venture Partner & Managing Director, McDonald's [Western India], " Research conducted by McDonald's has shown that people were ready to try something new and convenient, which would also be value for money." This encouraged the company to launch kiosks in Mumbai in 2004.

Kiosks are a point of sales with a limited menu and have been introduced to offer a convenient option for customers who wish to purchase only desserts. Currently, there are 7 kiosks which are operational. These kiosks offer a unique new range of desserts and cold beverages, which are 100% vegetarian. The menu comprises of aerated beverages, non-aerated beverages such as iced tea and cold coffee, soft serves and floats. The strategy is ' To build brand presence by increasing points of distribution and providing variety to the customers.' These are cold kiosks and they serve frozen desserts only. The kiosks are in close proximity of the existing McDonald's outlets only.

## **Serving the Society**

In keeping with its international policy of serving the society, McDonald's India has also participated in and supported health initiatives like the Pulse Polio Immunization program since 1998. In the same year, McDonald's also started Spotlight, an annual inter-school performing arts competition to provide the students with an atmosphere for healthy competition. Last year, more than 300 schools participated in the event.

Other initiatives include its association with the Nehru Science Centre in the year 2000, to bring to the schools of Mumbai, a science quiz, and partnering with the Nalanda Foundation, in the year 2002, for its Blue dot Education Initiative for the under-privileged girl-child.

In the near future, the company aims to focus on core markets, get the scale there and then look at further expansion. It plans to add 10 -15 restaurants each year [2004 & 2005] and estimates a total revenue growth of 40-45% over 2003, of which deliveries will contribute 15-

## **Serving the Society-Assurance**

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### **Relationship among Variables**

The key reason behind the success of McDonalds has been the integration of all key objectives and variables under one roof, and then aligning global strategy in the local format. They have used their extensive Public relations capability to build up a strong bonding among the variables. It has brought all the stakeholders at the same platform and assured success and benefit for each one of them. This in turned assured that all of them strive to achieve what McDonalds was set out to achieve when it came to India.