

McDonald's most  
important core  
competences  
marketing essay



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The term core competence was used by Prahalad and Hamel to explain the capabilities that a diversified firm possesses for identifying its unique resources and framing up a tactical maneuvering for attaining competitive advantage. This competitive advantage is obtained by strategic deployment of intellectual capabilities, physical assets or some other technological and managerial resources. These capabilities can span over numerous products or markets. This process is being developed by the identification of company's core competence which mainly includes a series of operations developed by the tangible and intangible assets a company owns. Determination of a particular company's basis for entering new markets and its future direction is based upon the strength of core competence it possesses. It is strategically flexible and its nature is very dynamic (Hamel and Prahalad 1992). It should be nurtured in a way that it becomes the integral part of any company's organizational learning process.

The core competences of McDonalds are as follows;

### **Secret recipe-**

McDonalds has got a unique recipe which cannot be easily imitated by its competitors. Only very few people know the secret recipe of McDonalds. Strict confidential contracts are signed while handing out the secret information to the concerned people. This recipe accounts to its core competence.

### **Core intellectual assets-**

The experienced and well trained staffs are the strength of McDonalds. The operating practices are systematically internalized within the workers'

cognition and attitude through high level training standards. Formal training programs are conducted at Hamburger University and individual training is done within the restaurant outlets itself. Quick service is one of their strength in the fast food industry.

### **Product line enhancements-**

The McDonalds exhibits a long range of product varieties and segmentations are made on the basis of demographics too. The company recipes vary from country to country based on the cultural and social factors. This is the source of their competitive advantage as they are able to market their products by blending with the cultural differences while maintaining the international standards. Example- Lamb burgers are served in India and separate entrances are provided for the families and single women in the Arabian countries.

### **Economies of large scale and cost leadership-**

As the company enjoys economies of large scale, it is successful in large scale operations and reducing the per unit cost by making the product cheaper while maintaining its quality.

### **Market leadership and unique brand recognition across different geographical location-**

McDonalds is one of the top multinational companies the world has ever seen. Its partnership with the industrial giant coca cola made it more reputed. It has made its presence in more than 122 countries with thousands of outlets. Competitors are few having the same advantage and it reigns as the market leader.

## **Replication of capabilities-**

Replication essentially requires systematization of the knowledge through standard operating procedures. Distillation of business system is done in McDonalds through functioning procedures and training manuals which help to control all aspects of the restaurants.

## **Appraising resources and capabilities through assessing the relative strength-**

The strength to circulate millions of burgers from vast number of outlets around the world with remarkable uniformity in the production quality and customer satisfaction accounts to its relative strength.

## **Technological, financial and physical assets-**

McDonalds posses huge assets that makes it even more powerful in extending its presence across the globe. Area managers use modern technological innovations to communicate, motivate and make comparisons in order to improve the performances of each outlet.

### **9. Good locations-**

McDonalds outlets are mainly located in the very crowded city centres, airports, theme parks etc. This gives the opportunity to attract lot of customers during peak hours. Location itself account to its competitive advantage.

### **10. Strong value chain-**

Value chain primarily deals with the development of maximum value for customer as a result of series of activities which includes logistic operations

and services. McDonalds' value chain is strong as it meets its objectives which fortify its competency.

#### 11. Franchising-

To get the products to be leveraged to international and national markets, franchising is the best tool which aids the rapid business growth.

Threats that exist which undermine McDonald's success are as follows;

#### **Growing health conscious customers-**

The modern people are becoming more health conscious which results in reducing the intake of sugar and the foods which contains saturated fats. They are switching to healthier options. Change in consumer preference has a negative impact on profitability.

#### **Growing foreign and local competitors-**

The company is facing intense competitions from the retail food structures like ' subway' which market themselves over fresh vegetable and other healthy food options. Though the McDonalds recipe is unique, the company has got rivals who makes up the identical products and increase their market share.

#### **Sued for unhealthy foods-**

McDonalds was sued couple of times for serving unhealthy foods allegedly with additive additives which gave birth to a possible threat of losing loyal customer base.

### **Contamination of food-**

Food can be contaminated at anytime with the presence of e-coli, bacteria etc. It is a possible threat associated with any retail food industry.

### **Negative impact of global economic turndown-**

Consumer confidence has been driven down by the global economic downturn. The spending began to limit which resulted in profit fluctuations for McDonalds. The money for discretionary purchases was dramatically declined due to job losses, bankruptcies and very weaker access to credit.

### **Outbreaks of avian flu-**

Many countries in the world have experienced the outburst of dangerous avian flu which was capable of affecting the availability of poultry across the world. As the people has got a tendency to eat less chicken due to awareness of flu company was affected negatively. Moreover in the countries like India where a greater population are not consuming beef products, chicken is very important to be in production. So such unanticipated outbreak remains as a threat.

### **Criticism from parents of small children-**

The McDonalds have been criticized by many parent advocates for their focus upon the children as a part of their marketing strategy. It was analyzed to be marginally ethical.

### **Social and Cultural barriers-**

The attitude a country holds for United states can also influence an American based company's performance while extending their business globally. In

Pakistan, the anti-American sentiments gave birth to many protests when McDonalds was first introduced. Beside this, if a country's religious and cultural setups will not allow any particular McDonalds product to be marketed, McDonalds will be subject to threats.

### **Weak relationship with franchisee dealers-**

The McDonalds' lack of control over the widespread geographical locations gave way to weaker bonding of control with the franchisee which resulted in weaker performance.

### **Contributions to health issue-**

Consumer activist and fitness experts accuse McDonalds for their part in various health issues which includes cholesterol, heart attacks, diabetes etc. (McDonalds and health issue 2011)

### **Examine the fast-food burger industry with reference to the Product Life Cycle model. What does your answer tell you about McDonald's future business strategy?**

The fast food burger industry passes through different stages of product life cycle in different countries. The food consumption trend depends upon location based social and economical factors. Even globalisation has influenced the idea of fast food burger to be propagated across different geographical locations. Thus product life cycle can be explained mainly in context of developing and developed countries.

### **Fast food burger industry in developed countries-**

Fast food burger industry is in maturity stage in the developed western European countries. The burger is one of the favourite fast foods of America.

The competition is intense and the demand is more or less levelling in these locations now. The industry in the developed countries is now struggling to meet the consumer expectations on the grounds of a healthy life style. The necessities of re-invention or product development are unavoidable as the business cycle has to start again.

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The maturity stage is characterised by the market saturation and sales remains to enhance in a slower pace. The main concentration is put forward to increase the market share. All distribution outlets are filled and the identical producers are competing intensively on the basis of price to meet its profit targets. Producers are focusing up on its distribution outlets as maintenance of sales is very important at the stage. No more considerable intense effort is put forward in the expansion of new outlets as the take aways are densely distributed in almost all areas. The producers are competing with each other to get others customers through various sales promotion techniques. (Harvard Business Review)

### **Fast food burger industry in developing countries-**

Though fast food industry has been well developed in the developing countries, the influence of western food culture has shown their presence very lately. The mighty retailers like McDonalds and burger king has made its introduction in developing countries by late 90's. Now these international retailers are successful in increasing its market share. By careful adaptation of the cultural and social factors of developing countries, they are able to



propel their food culture successfully which marks a growth stage in product life cycle curve.

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Now the boom is set on which is well characterized by increasing the outlets all over the suitable locations. As the majority population in developing countries like India doesn't consume beef product due to religious unacceptance, the burgers are made with chicken or mutton meet which is religiously acceptable. Thus product differentiation is given importance to propagate sales. More and more local and international producers are inspired and emerging in the market as carbon copies of international burger retailers like McDonalds with identical products. This gave way to the overall development of the fast food burger industry. Rapid revenue growth is exhibited in the growth stage as the product is becoming more successful and the demand is exponentially increasing among the consumers. Beside overall coverage of the product through more outlets and distributions, the burger retailers are investing on more promotion and advertising to sustain the growth stage but not as much as the stage for first the product was introduced. (Harvard Business Review)

### **McDonald's future business strategy**

The business strategy which is to be framed to retain their market share is as follows;

## **Future strategies to be framed in specific to developed countries**

The strategic goal should be defending the market position from the rivals and making more out of the existing product. Product line and product differentiation should be enhanced to include more healthy and environmental friendly products. Price should be decreased as competition is intense. Defensive price policy is the best strategy that can be adopted to withstand the competition.

## **Future strategies to be framed in specific to developing countries**

The strategic goal should be maintaining the existing market share and promoting the brand more intensively to attract more consumers. More pressure should be placed on the distributions and value chain should be systematically developed. The pricing policy should be re-estimated and price can be maintained high for some period if the product demand tends to be high. The products should be developed to ward off the competitors' pressure. More service enhancement and menu innovations should be made according to the developing countries' cultural and social food preferences.

Some other common future business strategies that can be implemented are as follows;

Inclusion of low-calorie meals and reduction of trans fats can eliminate the unhealthy food provider image of McDonalds among the public. A health tag should be provided to regard its quality.

To ward off the franchisee problems arising out of mismanagement and lack of quality preservation, it is recommended that regional managers should be more intensively trained and placed.

McDonalds should capitalise on hot drink market as it is booming out at present and it will continue its growth in future too.

It can provide allergen free products so that company can reap the benefits from the concerned segment too.

Trend towards organic foods should be encouraged as a part of healthy diet style.

More focus should be concentrated in developing the brand image in the developing countries by identification of strong value chain. More outlets should be opened and promotional activities should be given room for brand acknowledgement.

Junk food tag of the McDonalds products should be strategically wiped out through imparting more research on the existing products leading to new healthy product innovations. The need of research and development has to be essentially included in the strategic planning of McDonalds. (McDonalds and health issues 2011)

Identifying the BCG growth matrix, the company should invest more on the product which has got high demand as the market share grows over it. Thus for future cash generations star has to be sorted out and proper product differentiation should be done to reach the top line. (Thinking Managers 2010)

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## **Examine the advantages and disadvantages of the modes of entry adopted by McDonald's in order to internationalise their business.**

McDonalds' international strategy is propelled with expansion of production through franchising. An agency relationship is been created associated with expansion of business in an amalgamated manner which runs the company to top line in international market. McDonalds sells the right to other company to use the trade name along with the process techniques. The company to which McDonalds sell their right should meet some criteria which is set up by the McDonalds itself and a contract will govern the agency relationship.

The advantages of mode of entry adopted by McDonalds are as follows;

McDonalds gets the benefit of the fees or royalty from the franchisee.

Benefits can also be derived from sourcing specialized McDonalds machines or products to franchisee. They are unique in the way that the cooking materials used itself determine the product standard McDonalds posses.

Franchising helps in significantly faster growth in the brand identity across various geographical locations. The company can use the franchisees' assets, talents and location advantage to prosper its brand image.

As more and more outlets are opened by franchising, McDonalds can gradually reap the benefits of economies of scale.

By maintaining a healthy relationship with the franchisee, firm will get more ideas or inputs into the necessary menu innovations needed in concerned

areas. This will help in the proper blending and adaptation of cultural and social trends which prevails in the particular market.

As the company can start a venture with small investment, McDonalds can facilitate more funds towards the promotional activities. This will in turn contributes towards driving the brand name to the top line of the business (business link 2008).

The research and development can be propagated as there is reduced operating and distribution cost. McDonalds is giving more importance to product innovations and the research and development happens to be the unavoidable part of business strategy.

Quality control is expected to maintain while in the operation of a reputed brand's business as the franchisee has invested lot of money and much time in it. So the franchisee is expected to be self-motivated to work hard in escalating the financial and organizational results.

By multiplication of locations, McDonalds can spread the risk through the franchisees' investment. If one location is not doing well the benefit can be derived from some other good going location.

One of the most important advantages of the franchising is that the franchisees' initial capital is not needed to be repaid.

As the operations are done by the franchisee itself, McDonalds doesn't impart much time in the routine management of the small workforce in an outlet but just close observation and superior supervision.

McDonalds' income depends upon the gross sales and not upon the profitability of the firm. As in this case it is very much convenient to monitor as monitoring profit is a hard job to be done.

Disadvantages of mode of entry adopted by McDonalds to internationalize their business are as follows;

There is a greater risk associated with franchising as it breeds the possibility of getting the McDonalds brand image to be spoiled by inefficient management and lack of quality.

As the secret recipe of McDonalds accounts to its competitive strength, the disclosure of the confidential information can comprise risk to the business.

Lack of control over each outlet as there is geographical boundaries in facilitating supervision. Brand name has to be taken care all the time as the issues will erupt out at any one outlet can adversely affects the performance of McDonalds all over the world.

Laws and rules can differ from country to country. The laws associated with the franchising are also subject to change across the world. McDonalds can confront many legal formalities while implementing the international strategies.

The peripheral work force is not maintaining the original work standard expected by McDonalds in some outlets. The lack of control in franchising might be the probable reason for this.

There are chances that the franchisees learn the production techniques and set up a business of their own by acquiring the knowledge of production. When the franchisees are not loyal to the McDonalds, it will give raise to serious of problems.

Lower performance of outlets leads to lower gross sales which ultimately affects the profit of McDonalds.