

McDonald's strategy

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McDonald's was created in 1940 as a small barbecue restaurant owned by two brothers: Richard and Maurice McDonald. It was only in 1955, when businessman Ray Kroc pitched to the brothers the idea of building a national chain, that this incredibly successful brand was developed. Now, McDonald's has more than 34 000 restaurants, serving almost 69 million people in 119 countries every day (McDonald's 2010). Roy Kroc introduced a three leg stool strategy - focus on the company, its suppliers and its franchisees- with the purpose of creating international standards in terms of food quality, way of preparation, cleanliness and service.

McDonald's divided its business into five main geographical areas- US, Europe, Latin America, Canada and Asia + Pacific + Middle East +Africa, strategy which ensures standardized operations and which strengthens the brand (McDonald's 2010). Competitive strategy If we take into consideration Porter's classification of competitive strategy, depending on the region, McDonald's follows a combination of low-cost and differentiation strategies. Strategy depends on local conditions and competition, so for the purpose of this report, I will highlight US, Europe and India.

When it first started in California, United States, McDonald's decided to gain market share and get ahead of competition by differentiating itself. First of all, it focused on only a few key products (burgers, fries, shakes and soft drinks) but offered them at much lower cost than the other restaurants in the food industry. While most burgers would sell for 25 to 50 cents, McDonald's sold theirs at only 10-15 cents (Stinson and A Day). In addition, the company differentiated itself from competitors by offering fast food.

While in other restaurants you would have to order and wait for your food to be prepared, McDonald's was selling burgers and fries that were already cooked and ready to go. Finally, it was one of the first restaurants to introduce the option of drive-through. However, in order to achieve these targets, McDonald's had to develop a cost efficient business model: for example, they reduced the costs of hiring trained cooks by employing and training inexperienced staff (Smith). In the end, one could say that they adopted a combination of cost-leadership and differentiation strategies.

Europe is the second profit generator for McDonald's after the United States, which makes it an important part of the business. In this case, McDonald's adopted a differentiation strategy when they realized that Europeans had higher expectations from fast food restaurants. As a consequence, they changed their design: they introduced six new designs, from which restaurants would choose based on location, demography and economic conditions (Foodchain, 2010).

For example, in France, design included hardwood floors and comfortable armchairs. Also, they adapted their product portfolio, adding brioches and espresso to meet the new local needs. Because India is going through recession, McDonald's had to combine low-cost and differentiation strategies in order to stay ahead of the competition. McDonald's offers meal deals, promotions, lottery for winning their products etc. in order to lock in customers and be able to raise prices after the recession has passed.

However, in order to do so McDonald's had to improve its efficiency: it took them 6 years to set up the supply chain before properly entering the Indian market and they improved in terms of inventory level, use of computer

services or relationships to suppliers. The differentiation strategy in India is mainly focused on promotion (especially on the internet, television, radio): they realized people do most of the groceries during the weekend and decided to show all their ads from Thursday to Sunday.

Globally speaking, McDonald's differentiates itself from competitors by switching their focus from young adults to children and their parents. They provide Happy Meals, they have created mascots that children can actually be friends with (Ronald McDonald and his friends), have successfully organized birthday parties for years and have created playgrounds inside the restaurants. They managed to take the children's eating experience to a higher level.

Also, when they decided to better target adults, McDonald's released the McCafe small restaurants, which offer premium coffee beverage at competitive prices. This means that they entered in a direct competition with coffee shops like Starbucks or Costa. International strategy From a global perspective, McDonald's follows a multidomestic strategy, meaning that restaurants are adapted locally but are coordinated by the Head Quarters. McDonald's is well known for its high standards in terms of food preparation, service or cleanliness and all restaurants must follow them, no matter where they are located on the globe.

Whether it is a company-owned restaurant or a franchise, the Head Quarters takes the responsibility of selecting the perfect suppliers in order to ensure the quality of their food. In addition, McDonald's provides rules and guidelines on every procedure required in terms of food handling and preparation, taste, service, maintenance etc. Jim Skinner, the vice-chairman

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of McDonald's once stated that ' if you are looking for a command center with one push button that operate our restaurant in every corner of the world, you won't find it' (Han, 2008).

This suggests that despite the standards imposed by the Head Quarters, people in charge of McDonald's restaurants are granted the freedom necessary to thrive and to adapt to local needs and competition. In fact, some of the most famous products, like Big Mac, Fillet-O-Fish or Egg McMuffin were developed by franchises. The food industry is probably the most susceptible to cultures and tastes. For example, Muslim countries do not eat bacon, or Japanese people prefer chicken to beef (which is McDonald's main ingredient) and so McDonald's needs to assess very well the risks of entering a new market.

As a consequence, it took McDonald's five years of research on tastes, disposable income or preferences before successfully entering the Chinese market. Also, they redesigned the counter, chairs and desks in order to better fit Chinese heights and body shapes, which shows great attention to local details (Han, 2008). In terms of product, McDonald's has a few core items available in all countries, but then some locally adapted ones. Here we can talk about the Big Mac Index released by The Economist as a way of measuring the purchasing power parity between two currencies.

In other words, it shows the difference in price of a same product in two countries (just like the exchange rate). The 2012 Index shows that the most expensive Big Mac is found in Switzerland with \$6. 81 and the cheapest in India with only \$1. 62 (The Economist, 2012) On the other hand, there are many products adapted to local tastes, like the Canadian breakfast, the <https://assignbuster.com/mcdonalds-strategy-essay-samples/>

Belgian McChicken Premiere or the French brioches. Although McDonald's is highly receptive to local adaptability, it is considered to be the highest standardized business in the industry.

In order to ensure the same quality and taste of products, in many occasions, McDonald's has supported its suppliers in successfully developing in other countries. In return, suppliers must make sure that the products they offer to McDonald's are unique; the recipe for McDonald's products are confidential, exclusive and clearly labeled so mistakes can be avoided (Sancharan, 2009). Also, McDonald's has created the Hamburger University in Oak Brook, Illinois where employees and franchisee are trained to follow McDonald's highest standards.

By using strengths like marketing, cost-efficient operations or trained staff from Head Quarters, McDonald's also shows the influence of an international strategy. Corporate strategy- Relationship between McDonald's and its subsidiaries In order to establish McDonald's corporate strategy, we need to take into consideration the relationship between McDonald's as a parent company and its subsidiaries. McDonald's general strategy is franchising, with more than 80% of its restaurants being owned by franchisees that use McDonald's successful business model in exchange of royalties and an initial fee (McDonald's 2010).

However, in this report I will focus on Chipotle (owned by McDonald's until 2006) and McCafe, a fully-owned subsidiary. Chipotle Mexican Grill was founded by Steve Eells in 1993 in the United States, taking its name from a Mexican smoked chili pepper. The restaurant idea proved to be a success, and by 1998 when McDonald's decided to become an investor, Eells had

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already opened 14 restaurants across US. (International Directory of Company Histories, 2005) Seeing the potential of this business, in 2001 McDonald's became the majority owner of Chipotle and had a great impact on its expansion.

When McDonald's decided to invest in Chipotle, it took the role of portfolio manager. In the early stages, Chipotle took advantage of McDonald's expertise in terms of choosing a suitable location and expanded in just one year from 14 restaurants to 37 across US. Also, chipotle benefited greatly from McDonalds' well established distribution channel and strong relationships with suppliers. Chipotle could get better products from McDonald's suppliers and could get them faster by using their distribution channel.

This helped Chipotle manage their finances more efficiently: open more restaurants and develop a successful product portfolio rather than investing in logistics. With the help of McDonald's, Chipotle reached revenues of \$31 mil in 1997, compared to \$13 mil in 1997 (before fusion). By 2006, when McDonald's divested, chipotle reached a number of almost 500 restaurants (International Directory of Company Histories, 2005). On the other hand, Chipotle did not bring much value to McDonald's and the relationship between the two was mainly financial.

McDonald's gave Chipotle complete autonomy, even when they owned 90% of its shares. Chipotle was in charge of its own management, strategies (CEO was still Steve Eells) and R&D department (since they focused on a different kind of food than McDonald's). In addition, McDonald's did not impose its regular standards, as it did for franchises, but let Chipotle deal with food

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preparation, service and supplies. When talking about portfolio fit, it can be said that Chipotle became a value trap. On one hand, Chipotle had lots of potential, but lacked resources that McDonald's could easily provide.

McDonald's had great understanding of the market, of expanding successfully, but more importantly, had the money needed to expand Chipotle across US. McDonald's shared its expertise, distribution channel and suppliers and also invested around \$360 million in Chipotle. In return, they received revenues of \$1.5 billion (Heffernan, 2010). However, Chipotle was promoting healthy food (changed suppliers to use chicken and pork with no antibiotics and treated correctly), nutrition and environmentally friendly facilities, while McDonald's has been associated with obesity and unhealthy food.

In the end, it was this value gap between them that led to McDonald's selling its subsidiary. As Steve Ells mentioned in an interview in 2008, "Chipotle uses different kinds of food, we have different kinds of employees, we aim for a different kind of experience and culture altogether". (Heffernan, 2010) In 1993, Ann Brown, a McDonald's franchisee, opened the first McCafe in Melbourne, Australia (Entrepreneur 2001). Although these coffee shops are not as popular as the regular McDonald's, the brand's strategists saw a great opportunity in expanding their business to meet coffee lovers' demand.

Today, there are around 1300 McCafes globally, from US to Japan, Paraguay or Costa Rica. As time went by, McCafe extended its menu to include hot chocolate, tea and smoothies (McDonald's, 2010). In terms of food, McCafe started offering healthy salads, sandwiches or cakes. Unlike the previous

example, McDonald's assumed the role of parental developer when it decided to promote McCafe. Besides resources, expertise and logistics, the most important parental contribution in this case was probably the power of the brand.

McDonald's already has a well established customer base all over the globe, being one of the most successful businesses in the fast food industry globally. After all, McDonald's serves about 1% of the world's population every day (Lubin and Badkar, 2011). Although the competition shifted for McCafe from fast food chains to Starbucks and Dunkin' Donuts, it still operates in the food and beverage industry, where McDonald's is market share leader.

On the other hand, McCafe brings great benefits to McDonald's: revenues continue to grow; it strengthens the brand by providing premium products and gives McDonald's the opportunity to expand into new markets with shared risks (since the fast food industry is rapidly becoming saturated globally). In terms of portfolio fit, McCafe is a heartland business. It is fully developed and owned by McDonald's, based on its main competences, resources and understanding of the market. It is run at the same standards and uses reliable suppliers chose by McDonald's to provide high quality, premium products.

Also, this is an opportunity for McDonald's to reach a different type of customer, with higher disposable income and a healthier life style. If we take into consideration that McDonald's is divided into five different geographical business units, we can say that in a way it is also acting as a parental developer. McDonald's has few core products that a customer can find

globally, but most of the time, the menu is adapted to certain areas in order to reach full potential in terms of revenue and customer base. Value is created at each region to the benefit of the entire organization.

For example, when I go on holidays and I do not have much time to explore the local cuisine, I quickly go to McDonald's to get food that I know, trust and enjoy. In terms of parental responsibility, McDonald's shares resources, R&D and marketing with all of its units. They want to create a brand easy to recognize in any part of the world and standardize it so that a customer knows exactly what to expect when entering a McDonald's restaurant. This has clearly been a successful strategy since the golden arches are one of the most well known logos in the world.