

McDonald case analysis marketing essay



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Introduction

The McDonald franchise is the world's largest fast food restaurants which runs the best food outlets not only in Australia but also in other parts of the world. The franchise runs up to 30, 000 joints in 118 countries, two hundred of them being in Australia. Just in one country, the United Kingdom, the McDonald's franchise has around 13000 outlets, 30% of which are privately run and the remainder directly owned by the company (Facella and Genn, 2008 pp 45).

The origins of McDonalds can be traced back to the early 1940s and 1950s (Schlosser, 2001). Back then, at 52 years, Ray Kroc met the McDonald's brothers; Mac and Dick McDonald during a sales visit in 1954. Roy Kroc was multimixer salesman. The McDonald siblings ran a restaurant. The two run the food outlet in San Bernardino, California which they started way back in 1940, as a drive-in bar-b-que food outlet and an automobile service station. While making deliveries to the two siblings; Mac and Dick McDonald in 1954, Ray Kroc was amazed by the fact that the brothers food joint seemed to be doing extremely well despite the fact that it was small. He also noted that the brothers had a very brief menu that specialized on handful delicacies, 9 items to be exact. This he realized ensured their undivided concentration on quality when preparing the food. Bang! It hit him, Mac and Dick McDonald's success was underpinned by specialization (Kroc and Anderson, 1987 pp23).

As Mr. Kroc strutted into his early old age, he mulled about the feasibility of replicating Mac and Dick McDonald's operation not only right across the country in the United States but also exporting it abroad. Thus was born the

idea of expanding the company to numerous other countries abroad, apart from concentrating in the United States alone. He approached the McDonalds' and pitched the vision to them, only to learn that they too had ambitions of finding a countrywide franchising firm, that would propel them onto the national stage (Malcolm McDonald and Dunbar, 2005 pp52). This is when Ray Kroc, at 52 years realized that his career as a multimixer sales man had come to a screeching halt. He decided from then on, his future was in hamburgers. McDonalds Inc. was born, just a year later, with the first outlet opened in Des Plaines, in the state of Illinois on the 15th of April in the year 1955. This was the start of the opening of several other restaurants across the country and the whole world. A decade later, no less than 700 outlets were already in operation in the United States (Schlosser, 2001 pp 69).

McDonalds utilizes several product differentiated strategies so as to achieve a competitive advantage in the market. One such strategy is setting audaciously high parameters of quality, service, cleanliness and value that have to be met every single day, month or year. This goal however, is rarely met because of the differences in the perception of outsiders about this organization (Schlosser, 2001 pp71). Through their successful branding campaigns, McDonald's Ltd targets driving down the cost of their culinary products while shoring up the customers numbers and meeting their corporate goals and objectives (Sugars 2005, pp23).

Besides meeting the two core company objectives; cutting back on the costs of their culinary delicacy products and setting standards, the McDonald's Incorporated realizes the importance of creating an affable environment as it

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boosts their image in the various outlets that are scattered in 118 countries in different parts of world (Gerson, 1993 pp 82). They have also recognized and implemented various business operation strategies that are concentrated on widening the competitive edge it has over the other industry competitors. These differentiated strategies incorporate sustaining sparkingly clean restaurants, and enhancing value by improving the dietary quality of their foodstuffs. This is further escalated to creative improvement of the services they render, ascertaining consistency across its outlets all over the globe (Hill et al, 1997 pp 167). The French fries served by McDonald in Peru, tastes just the same as those served in a McDonald's franchise in Toronto, Canada. McDonald has succeeded in establishing an extremely effective communication system between its franchisees and the management team based in San Diego. This has been decisive in accomplishing the objectives of the corporation. Apart from that, this worldwide fast food restaurant franchise has a near perfect human resource workforce which executes its responsibilities with a mind, set at meeting the goals of the company (Schlosser, 2001 pp71).

INTRODUCTION

McDonald's founders had a single strategic objective for the franchise that they pursued relentlessly (Ritzer 2004, pp220). This objective was expansion. They wanted their fast food restaurants to be in as many locations as possible. This they easily accomplished, but it did come at a price. The price was, a not too quality menu, increase in competitors, poor practises in management, poor or absence of marketing, and unresponsiveness to the alterations in the requirements that were critical to

the continued thriving of the business and its global clientele (McDonald and Keegan, 2002 pp110). These difficulties and challenges brought to the fore strategic policies that required to be executed if the franchise was to continue expanding successfully. Franchising outlets world-wide is pivotal in the growing of McDonald's franchise. Similarly, MacDonald's main rivals have also been outpacing each other in taking their fast food chains world wide (Talloo, 2007 pp50).

SITUATION ANALYSIS

To obtain a good grasp of MacDonalD's present position, its strengths, weaknesses, opportunities, and threats are investigated in order to construct a situational analysis of the company. A SWOT analysis establishes that while there are many challenges bedeviling the all the players in the fast food business, however, McDonald's sit pretty in a vanguard position on the global market stage(Parsa and Kwansa, 2002 pp51-2). Basing on the five forces model, the fiercest competitive force is between rival vendors in the industry. The SWOT analysis further exhibits McDonalds numerous strengths, as implemented by the firm to stay a step ahead of the rest of the industry. Whilst faced with several weaknesses, McDonald has the wherewithal to turn them into strengths (retrieved from). It must never be lost to anyone analyzing McDonalds that, it is its core competencies that buoy the success that it revels in. Over the past couple of years, the McDonald franchises have stood out as being instrumental in the success of the company, raking in roughly up to 60 percent of the accumulated sales revenue. It newly adopted corporate strategy, specifically, the plan to win policy, has also been another decisive factor that has underpinned this success. This plan to win policy is founded on five tenets of success. These include, price, product, people, place and promotion. The foremost tenet is people that are McDonalds's employees (retrieved on 21 July 2010 from). McDonald places maximum premium on its employees. The company pushes to balance its employees at peak times so as not to overwork them and readily offers incentives to the hardworking ones for outstanding work. Keeping these facts and analyses in mind, I will attempt formulation of an alternative strategy that appropriately fits McDonald's present market position. This strategy focuses

on service diversification as a means of sustaining quality service to the clients. This is informed by the knowledge that good customer service can only be maintained by giving employees quality training which enables both their personal and professional development

(Retrieved on 21 July 2010 from <http://mcdonalds.com.au/careers/grow-with-us>).

Assessment of Relative Strengths

Companies operate in competition with each other. Firms only do thrive when they are run in a competitive setting. Thus, for a company to recognize its strengths and weaknesses, it invariably has to study its competitors (Hill et al, 1997 pp 160). In the analysis of its competitors, the firm will most likely discover opportunities for and threats to its existence from its industrial background. A SWOT analysis methodically analyses each of these dynamics and the approach that mirrors the most appropriate match between them (Love, 1986 pp 11).

Analysis of these tenets in relation to the core competence of McDonalds, the number one fast food global franchise company, reveals exiting trends. First, let's begin with the strengths and the positive dynamics that describe McDonald's performance. What is an organization's strength? How one does identifies these strengths? Strength is a unique capability with the potential of presenting the organization a comparative edge over its competitors in the market place. These unique capabilities could take the form of financial wherewithal, corporate image, market vanguard position and customer trader associations etc (Gerson, 1993 pp82).

McDonalds as the number one restaurant franchise outlet, is visited by up to 40 million diners each single day. The whole franchise network makes up 31,000 branches in 118 countries. McDonald obtains over $\frac{3}{4}$ of its income from eight countries that include Canada, Brazil, Germany, France, Japan, United Kingdom, Australia and United States (Sugars, 2005 pp 24). McDonald's utmost strength is the image of its self that it has actively helped formulate in peoples minds and the introduction of the fast food culture (Ritzer, 2004 pp 221). Exceptionally fast delivery speed, good care of customers and sparkling clean restaurants are the core strengths that drove the expansion of this franchise globally (Hill et al, 1997 pp 167). McDonald developed a distinct corporate identity and its marketing campaigns were exceedingly effective in creating the brand image and logo in the millions of minds. The Burger King and the KFC are the two foremost McDonald's rivals, recognized universally as possible contenders for the number position of the fast food industry (Parsa and Kwansa, 2002 pp54). McDonald's strategy in marketing is hinged on the consolidation of the internal resources, external environment and McDonald's core competencies along with its share holders (Love, 1986 pp5).

McDonald's product value is also its supreme strength. Diners are well acquainted with what to look forward to when they strut into a McDonald's restaurant any where all over the globe. The management provides huge prominence to employees through gratifying both the diners and its human resource. Following is McDonald's continued creativity. Because of sustained creativity and innovation, new value products have been queuing up to the new trends and flavours of the people. McDonald's divergence into further

fresh commercial projects can also be regarded as its strength (Kroc and Anderson, 1987 pp 24).

How successful are these strengths to the franchise in the projected future? McDonalds as of now is not that flexible as it was all through its formative years. What is the cause that has been driving down sales revenues and quality of services? To examine this cause, focus on the company's soft belly (that is, the noticeable weaknesses in the franchise business and marketing stratagem). What can broadly be described as a weakness of a firm? The same aspect which is regarded as strength may also turn out to be a weakness when it holds back the general performance of the firm (Facella and Genn, 2008 pp 25). McDonald's strengths include:

The first strength is that the company has a recognized brand name (retrieved on 21 July 2010 from).

Since the company has been in place for a long time, many people have come across their products and therefore they can identify with them. Their global but local presence is also strength in that it serves many countries and therefore has gained a competitive advantage over many regions (Talloo, 2007 pp42). It utilizes a strong advertising and promotional campaign which has been made possible by the recent developments in the use of the internet. This has made sure that the product can be viewed over the internet making it possible for a greater percentage of individuals to be reached at (Parsa and Kwansa, 2002 pp 60) . The Company offers a variety of products and varied features of the product therefore appealing to a diverse group of people. The Similarity and uniformity of quality across

geographical locations makes the company to experience a greater market share. The company offers convenience and timeliness services thus making sure that their customers enjoy them to the fullest (McDonald and Dunbar, 2005 pp63). The affiliation with other bodies like heart to heart foundation and Coca-cola corporation has also enabled the organization to gain an upper hand with its customers (Sugars, 2005 pp27)

Assessment of Relative Weaknesses

A customer's lifestyle is amendable and as he or she re-adjusts so does his or her choices. The human person easily gets so bored of the very same brands that he or she has been utilizing all through the years, that when they do not notice the anticipated improvement they move to a newer brand (Kroc and Anderson, 1987 pp27). What is more, people spot McDonald's the world over and this conspicuousness may possibly also be an explanation for the abstinence (retrieved on 21 July 2010 from). In addition, sustaining the standards of such a vast franchise becomes conspicuous and if there is absence of quality service in one restaurant it impacts the entire brand (Sugars, 2005 pp24).

The secret of every marketing plan is to get to the intended market segment (McDonald and Dunbar, 2005 pp77). Furthermore here yet again the target audience must be selected with the utmost care. In the case of McDonalds as recreated in its ads, the intended market segment is made up of 4-17 year old teenagers (Love, 1986 pp7). Demographics and consumers financial and psychological characteristics describe commercial undertakings effectiveness (Facella and Genn, 2008 pp39). Women who are very cognizant of their health status and retired folks make up a big proportion of

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the population although children in next to no time mature up into becoming young adults. A barrage of the latest civil proceedings and documentaries prompted the firm's fresh creativity that resulted in an overhaul of its product nutritional values consequently resulting in dietary healthy product varieties and this switch over as per the requirements of these days' inclination and necessities has raised the lost fame of McDonalds a bit (Gerson, 1993 pp83).

All the above aspects point out the external strengths and weaknesses. There are also internal aspects which have an effect on the performance and general advantages the franchise is positioned to benefit from. A teenage targeted marketing plan that was previously a weakness was transformed beginning 2003 (McDonald and Dunbar, 2005 pp78). Today more kids together with the adults dominate the McDonalds ad campaigns. The research and development that was either deficient or totally absent previously is also concentrated on and the brand value is being redefined with an assortment of research and development choices at the moment. McDonald during its inceptive years, at some phase began focusing so much on expanding and going global that it failed to notice core aspects such as value maintenance and Research and Development (retrieved on 21 July 2010 from).

The single foremost threat to every brand is its affiliation between its management and the franchise operators (Parsa and Kwansa, 2002 pp65). The organizational strength is the spine of every undertaking and if this strength begins to wobble the spine may snap causing the entire system to disintegrate. However, unhurriedly McDonald is making progress on all these

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weaknesses since its branding managers are able to effortlessly stay in touch, evaluate and perk up their services using the recent technological advancements wherein they have the know how to utilize the internet to inspire, evaluate and progress upon other restaurants feats (Hill et al, 1997 pp85).

The entire analysis of all external and internal strength and weakness of this franchise is supposed to be connected so as to craft a protractible outline for the firm's added progress. For any progress or development the internal resources have to be readily obtainable. And thus examining this factor will possibly lead to an adaptable approach appropriate to its vision. Keeping in mind the obtainable resources the planner should think globally, but implement locally. That's why making use of every one of the core competencies of the franchise will without doubt uphold it in the competitive fast food industry (Facella and Genn, 2008 pp51).

The company has over the years experienced a negative public perception that its products are of low nutritional value. Because of lower disposal income, people have resorted to spending less on fast food. The affiliation of McDonald's with the American obesity epidemic gave a negative picture for the company. Social changes and lifestyles of people have made the company less flexible. Because of affiliation of McDonald's with the American obesity epidemic, the sales have been so low over the past years (Parsa and Kwansa, 2002 pp59).

The overhaul of the top management has presented McDonald with a new lease of life in its performance and key adjustments have been put into

action in order to preserve and uphold the brand value and improvement.

Like a one time new Chief Executive Officer correctly stated,

“ The world has transformed. Our patrons have adjusted. McDonald has to revolutionize too.”

James R. Cantaloupe, Chairman and CEO, McDonald's, 2003 (retrieved on 21 July 2010 from).

Next is an examination of the sustainability of the competitive advantage of the McDonald's franchise. What is sustainable competitive advantage? How sustainable competitive advantage does relate to McDonalds? A sustainable competitive advantage is a tangible or intangible benefit a firm enjoys, which at the same time is complex or impractical for other competing firms in the same industry to acquire or enjoy (Love, 1986 pp10). These advantages invariably encompass the company brand, quality care of customers, structural costs, and the brands patent (Ritzer, 2004 pp53). Whatever the benefit, for it to be regarded as uphold able it must both be proprietary and unique. Save for this, three dissimilar factors that aid in sustainability of the competitive advantage include:

The managerial and organizational process should share a good integration and coordination. The greatly required “ quality” is generated in so doing as all and sundry make every effort to labor for a universal objective. The franchise ought to discover and institute alterations in concurrence with the necessity of the situation and must at all times be amendable to these alterations in the environment for example consumer inclinations, legal or government constraint and improvements in the technology. McDonalds is

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currently focused on this benefit by fixating on corporate behaviour and managerial proficiency. In the past, this benefit was paid little or no attention to, as the franchise chain was largely into expanding its restaurants throughout the world than consolidating its core benefits. The effect of this was reflected in the stagnation of the revenue, that is, there wasn't a good deal of change in revenues despite newer restaurants being flung open. Thus, the franchise chain recorded an enormous loss for the first time since it was founded. This inevitably, further led to the alterations in the management (Taloo, 2007 pp49).

Technological, structural and financial assets of a firm are tremendous market placement indicators that aid in the sustainable competitive advantage (Parsa and Kwansa, 2002 pp55). McDonalds undoubtedly is beset with such characteristics like structure, technology and finance. To recognize and put into service these assets in the appropriate course towards the enhancement of the firm is all that is decisive. From 2003 the franchise chain in actuality began to focus on its utmost benefits (Sugars, 2005 pp28).

Primarily the utmost benefit is the dream or the vision with which the franchise was conceptualized. Upholding of this vision throughout the years is any organization's utmost benefit. A brand more often than not orbits around this dream, upholding the dream and laboring in lieu with it is an enormous sustainable competitive advantage. McDonalds franchises was founded to aid individuals who had no time to prepare their own food or were too bogged down with work to find a suitable food outlet. The idea was to make available quick but quality service, affordable but value products and overall value satisfaction. Sustenance of this image had slackened a bit a

result of inept franchise proprietors. They were weeded out and new and more competent holders put in their positions as the torch bearers of the franchise maintaining and living the dream (Kroc and Anderson, 1987 pp25).

In summary, sustainable competitive advantage implies putting to practice the most excellent quality based plan by means of all the benefits which are distinctive to the firm and that which can not be imitated or duplicated by other competitors. The significance of sustainable competitive advantage can be obvious by the response the celebrated investment expert Warren Buffet gave when questioned on how he appraises his investment portfolio. He plainly retorted " sustainable competitive advantage". Therefore founded on the dynamic integrated and intelligent human resources can always be the only reliable and sustainable competitive advantage (retrieved on 21 July 2010 from).

Sub contracting boom or doom in the current business environment. These days everything is contracted to outside specialist firms; from staff recruitment to book keeping and caring of customers. Not a single company is competent enough to manage every sort of work. Also focusing on all the fine print is impracticable with a huge franchise particularly like McDonalds. Nevertheless a lot of care must be exercised so as not to sub contact the core competences of the firm. Common benefits of sub contacting are affordable service, better comprehension of foreign markets, amendable resources, faster operations, growth in supplier liaisons etc. especially the firm can focus on its key competencies and sub contact the remainder of its operation (Facella and Genn, 2008 pp 51).

McDonald has tested its drive through order facility. Wherein it makes certain that the order placed with the restaurant is correct. The order taken by the sub contracted firm is relayed back to the home outlet. These call centre have a digital closed circuit camera which captures the image of the automobile you drive through with and the delivery personnel back home can integrate the order and the individual who placed it by means of the picture of the automobile. Outsourcing therefore aids in the boosting of the external suppliers and fills up the problems encountered as a result of the absence of the recent technologies and other improvements (Taloo, 2007 pp44).

What started of as a successful story with McDonalds had to encounter a number of threats, competitions and significant impediments? What makes it serenely strong and positioned among the top business enterprises is its core competences and the sustainable competitive advantages both internal and external. Of course in step with the changing times the franchise has also moved into sub contracting but the idea to keep in the focus on here is never to be impelled by the sub contracting mania. The franchise is regressing back to its days of golden glory with the near whole overhaul of its organizational and structural policies (Facella and Genn, 2008 pp50).

CONCLUSION

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