

# Swot long pest analysis of mcdonalds



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One strength for McDonalds is that it has a wide product range. Some examples of the products they have are, beef chicken and fish burgers, wraps, salads, deli sandwiches and chicken nuggets. This is a good thing as it means that they can target lots of people if they have something to suit everyone's needs which will gain them more customers.

Another strength for McDonalds is that it is the market leader in the fast food market. It is by far the largest fast food chain worldwide bringing in more customers than any other company and also having the most restaurants. This is a strength as it means they have control over the market and take more risks. It is easier for McDonalds to move into new markets as they have the money and facilities to do this which another fast food company may not be able to do it they aren't as well established. (Scribd, 2008)

## 2. 2 Weaknesses

With McDonalds being the world's largest chain of quick service restaurants it is the one everyone firstly thinks of when it comes to fast food. This can be seen as a weakness as currently the government are trying to lower obesity levels and to do this they are attempting to make people eat healthier. With McDonalds having their unhealthy image this can put people off as they trying to convince people to avoid places like this.

## 2. 3 Opportunities

One opportunity for McDonalds is the ageing population. This is an opportunity as it means they can change their restaurants to fit in with the eating habits of older people. They could do this by making their restaurants

more like cafes which will encourage older to people to come to McDonalds if they don't see it as a fast food place anymore. This can be done by having healthier products available such as sandwiches and they can also provide a wider variety of hot drinks and more cakes and muffins.

Another opportunity is peoples changing lifestyles. People are currently more time poor than they used to be and have busier lifestyles. This is a good thing for McDonalds as people are more likely to buy fast food if they are busy as they may not have time to cook meals for themselves and their families. Also there are now more single person families in the UK, this is an opportunity for McDonalds as people who are single may not want to cook for just themselves or may find it cheaper to buy fast food. They are also less likely to go out for meals as it may be seen as socially unacceptable to eat alone in a restaurant and might have fast food instead. (Mintel, Chicken & Burger Market – Internal Market Environment, 2008)

## 2. 4 Threats

Currently the market is becoming saturated with more and more competitors entering the market every year, this is causing slowing growth as people are turning to the new alternatives which is a major threat to McDonalds.

Also there is government intervention as they are trying to stop people eating so much fast food. The government have intervened with the advertising campaign as they now have to have healthy images for the happy meals by advertising the options of fruit and vegetables and juice instead of fizzy drinks and fries. Although this does make it more likely for people to buy happy meals people could still however be put off.

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Another threat would be the prices of raw ingredients as these are rising at the moment. If they go up too much this could result in McDonalds raising the prices but at the moment it is just lowering profit. (JapanToday, 2009)

### 3. 0 Porters Generic Competitive Strategies

<http://www.icsrpa.org.ge/images/stories/genericstrategies.jpg>

[http://www.mindtools.com/pages/article/newSTR\\_82.htm](http://www.mindtools.com/pages/article/newSTR_82.htm)

In order for McDonalds to operate successfully in the fast food industry where there is substantial competition from other brands they need to identify a competitive strategy. This can be achieved through cost factors or differentiation. Getting this right could lead to above average or even superior profits.

The first section of Porters strategy is cost leadership, this is best suited to a business which serves a mass market like McDonalds. To reach maximum efficiency you need to supply standard products to many consumers. This is much like McDonalds who are the world's largest fast food chain, although their approach to marketing in the past has been targeting children with happy meals, their best selling product. In more recent years their adverts have included pulling factors for both children and adults alike. As well as this massive advertising budget they have a limited yet carefully designed menu. Perfect for mass market production, it enables them to make just a select number of meals with timely precision. And to attract the number of sales they require they put lots effort into providing meals that any of their customers could choose from. The menu is updated quite often and

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alterations are made to make sure there's a good range. There are different options like beef burgers, chicken burgers, deli sandwiches to grasp the mass market. The key being that whatever you taste, beliefs or religion there should be a product suited to you. It's also convenient being located in city centres, shopping areas and road convergences. A large benefit of McDonalds over independents is you know what to expect every time you go as the ingredients and cooking methods are generalised.

Porter says that it's difficult for any competitor serving the mass market with standard products to charge above average prices, as competitive rivalry is too fierce. But what the theory doesn't consider is the added perceived value of the brand. There's no recognition that McDonalds stands out from the other competitors based on its reputation. This is the major reason behind their aggressive growth and mass market performance. Twinned with their successful franchise based business model, without which they couldn't achieve such good geographical coverage or as competitive economies of scales.

So aside from selling some cost leading products they're also able to attract people into buying more premium meals, for instance the chicken legend meal in 2008. The most expensive set meal they've ever sold. This moves McDonalds slightly away from cost leadership, although their target will always reside with the broadest categories, some product differentiation is happening.

In Porters Strategy he defines differentiation it by saying an organisation is differentiating when they're still able to serve a broad target market, but by

providing a service which is different or better due to its added value. The customer needs to be prepared to pay extra for additional features or quality. This allows for a higher or premium price to be charged, giving rise to superior profits. I suppose this is the aim of McDonalds to be able to build on their cost leading success, generate revenue from 'superior hamburgers' where people are willing to pay for it. These ideas are emulated by other competitors in the fast food sector. Burger king have low cost and ever more expensive meal options, topping the five pounds mark. As do Subway with their different filling choices, six inch sandwiches cost from £2.49 and you can pay over £5 for a foot long meal. Traditionally this would seem expensive for a sandwich, drink and snack.

The big issue with this currently is that differentiated products don't perform well when there's economic downturn. This is best demonstrated by Marks and Spencer's in the second quarter of 2008 their food sales fell by around five percent, while at the same time Aldi and Lidl experienced an increase in market share. Showing that consumers were less willing to pay for perceived added value, even M&S customers who are typically brand loyal. McDonalds in my opinion would suffer badly under these circumstances should they go further down the differentiation route. The reason being the products would most likely dive in number of sales while demand for the usual set of value options would benefit.

The other side of Porter's competitive strategy is the narrow scope. Meaning the business doesn't serve the mass market but a small number of customers instead. Cost focused strategy is taken up by organisations following a narrow target market, and where customers are very price

sensitive. For the business to make profits there are two important factors, firstly costs must be kept to a minimum and price set at achievable rates. This type of strategy direction isn't commonplace in what we think of as the main fast food sector. But when considering the entirety of small takeaway businesses in the UK, most of them are in-fact forced to take this strategic route. As barriers to entry by the big franchises like McDonalds restrict them from winning more custom. Coupled with tight margin and this is almost impossible.

Differentiation focused strategy on the other hand looks to serve that narrow band of customers, but instead of being run on tight margins businesses change and alter their products or service so that consumers are prepared to spend a great deal of money. This is also known as niche marketing. When it works well the business can match or even exceed profits made by broad differentiated firms, despite not having the mass market customers. Whether this is possible in the fast food sector is doubtful, the simple nature of the products is based around convenience and value. So for someone to start selling to a limited number of people for an inflated price seems unlikely. It would just be too difficult without a quality reputation and a large budget for promoting yourself. Porter's idea of differentiation focused strategy is one which McDonalds could never take up as the concept of applying it to fast food is flawed, making it very unprofitable for any business to undertake.

(Capon, 2009)

#### 4. 0 Strategic Fit

In recent years McDonald's has seen a dramatic change in its external environment with more competition, changing demands from consumers, advances in technology and changing view from governments around the world. McDonald's strategy is to produce good quality food at a low price for the consumer. In recent years McDonald's has seen a rise in competition which has effected its market share within the fast food market. The likes of Burger King and KFC have grown dramatically over recent years and McDonald's have had to develop internally to counter the growth of their competitors. An example of this would be McDonald's broadening its food menu. McDonald's have attempted in recent years to move away from the traditional image that McDonald's serves only unhealthy fast food by creating healthy options on their menu. This was an internal change within the company as nowadays McDonald's tries to emphasise where their ingredients come from and the new healthy options. Another influence that made McDonald's consider its image and what products it sold was the changing demands from consumers for healthy products. Government campaigns and the media in general gave consumers more awareness of the risks of eating unhealthy. This made McDonald's respond with more salads, fruit, and lower calorie items. Another way McDonald's could adapt their strategy involving healthy eating/drinking is by creating more healthy drinks for consumers. Currently McDonald's only sells orange juice as an alternative to fizzy drinks they could expand their range of drinks involving carbonated waters or other fruit based drinks which give consumers a healthier option.

Another issue in the external environment that will effect McDonald's strategic fit is the economy. Currently consumers around the world do not



have as much disposable income to spend on treats such as fast food takeaways. In recent years McDonald's prices have increased meaning many consumers are moving to lower priced takeaways. An example of this was in 2009 where McDonald's increased the price for children happy meals a standard Happy Meal increased by 16.5 per cent, from \$4.25 to \$4.95. This increase may be due to McDonald's growing use of local ingredients or the currently refurbishment programme throughout its stores around the world. To improve the companies strategic fit in this area it suggests that McDonald's tries to create more lower end products which are cheaper for consumers. As consumers have less disposable income they will be less willing to spend nearly £5 on a meal when they can still not guarantee a good quality of product.

#### 5.0 New Product or Service

From carrying out our SWOT analysis we identified some opportunities for McDonalds to take advantage of. These were the ageing population within the UK and consumers changing lifestyles and demands. From these we have identified a new direction that McDonald's can expand into. We have looked at McDonald's main competitors and found that many do not operate a delivery service. We feel this is an opportunity for McDonalds to differentiate from their competition. We have chosen delivery service mainly because of people's changing lifestyles and the fact that most people no longer have time to cook meals. We believe that the delivery service would be popular with many McDonald's consumers with the main target being students. This is because we feel that students would rather pay extra for their meals if they don't have to go out and purchase it themselves. Most

students live in central locations and are unlikely to have cars meaning the only way to get to McDonald's is by walking which may be inconvenient. The delivery service will operate through the day and evening making it a substitute to an independent typical takeaway.

## Appendix 1 – Porters Five Forces

Porter argues that five basic forces drive competition in an industry, competitive rivalry, threat of new entrant, threat of substitute products or services, bargaining power of buyers and bargaining power of suppliers.

### Industry Competitors

McDonald's is the number one fast food company in the UK in terms of foodservice sales, with a 12% share of the total sector in 2008. Amongst chained fast food brands, McDonald's held an impressive 27% of foodservice sales in 2008, although it must be noted that its share of fast food sales amongst chained operators was down by one percentage point from 2007. This fall is due to the expanding competitive environment in which it operates, you may think of McDonald's as being a monopoly business and with around 31, 000 restaurants in 116 countries and this is right in one sense. McDonalds strong brand presence and efficient operating service has allowed them to expand rapidly, opening up in developing countries worldwide. But now other businesses such as Nando's, KFC and Subway are growing in strength. There are many driving forces behind this from a greater demand for choice, healthy options, and the expansion of franchise business models (KFC, Subway). KFC, the number two fast food brand by sales and number four in terms of outlets, saw marginal growth in its share

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of foodservice sales in 2008. KFC accounted for 14% of sales amongst chained fast food brands and 6% of total fast food, unchanged from 2007. Burger King was the number three fast food company in sales terms, with a 4% share of the total sector, down from 2007. Expansion plans of KFC, particularly in the parts of the country where it is under-represented, such as the North and Wales, have been seen by some as a move for more dominance.

**Threat of New Entrants** The major barriers in which a firm looking to enter the market faces are the economies of scale and the access of the distribution. In order for a firm to enjoy success in the industry, they must spend a large amount of capital on advertising and marketing. The industry is very competitive because firms are always attempting to steal customers from each other.

It's also very price focused, without a monopoly on the competition you would find it difficult to survive without alternative low cost products. However the McDonalds franchise model has made it easier to enter the market, for example Subway has built their strategic plan around franchise options.

Because fast food is a global business, there's a threat that new entrants in foreign countries could gain market share and power. Especially where McDonalds finds it difficult to adapt to cultural customs e. g. India. This growth could transfer overseas into McDonalds home markets like the UK Germany and the USA.

When every aspect is considered though, it's going to be difficult for new entrants to achieve substantial market share in such a dominated industry.

**Threat of Substitute Products or Services** There's a wide range of products which could be considered alternatives to eating in McDonalds, such as purchasing a burger from the local store and taking it home to warm up, this is a cheaper alternative but is more time and effort consuming, therefore not a convenience like McDonalds. However, according to MINTEL the UK ready to cook food market went up from £504m in '07 to £530m in 2008. By 2013 it's estimated to be worth £728m a 37% increase over last years figure. And sales of the chilled meat burger brand Rustlers reflect this, last year sales increased by 57.9% to £30m.

Alternatively you could go to one of the popular in store cafes, like at Debenhams, BHS or even an independent café. Burger restaurants, like Fine Burger Co and Gourmet Burger Kitchen offer the same products but use better quality as there USP. There are also a number of upper-class restaurants like Café Rouge and Pret A Manger who could take business away from McDonalds by appealing to people on lunch breaks from the office. Pubs and Gastro pubs also compete, offering deals such as two meals for the price of one, it isn't difficult to find a burger and chips for under £5. Or in the high street there's businesses like Greggs and Ainsleys who do take out food but aren't classified as restaurants, they're cheaper and a strong alternative during the economic downturn.

Because people are becoming more health conscious, there's likely to be some switch over from what people perceive as fast food to healthier

options. We believe this is the main threat to McDonalds, as its campaign for healthier products has come under lots of criticism, uptake of these ranges hasn't been as good as McDonalds hoped and this could play into the hands of other business using basic ingredients as their selling point.

**Bargaining Power of Suppliers** Because McDonald's is such a large competitor in the market, suppliers will be keen to win their custom. This also means that they control and influence heavily on what price they pay for goods. Such strong dominance means that suppliers will have little bargaining power over the price they get, only regulations and free trade agreements will ultimately protect them. McDonald's have gone a step further than bargaining with suppliers, they've taken over a number of them and switched to their own supply in many cases. This is called backwards vertical integration, something which large businesses do to reduce costs, guarantee a good supply and ensure to quality of products from their farms. An example of this is supplies such as beef, milk, flour, sugar and yeast to be used in its products. McDonald's has also formed strategic alliances with companies such as Walmart, Disney and Coca-Cola which lead towards balanced vertical integration, whereby they also begin to control other outlets for their products as well as suppliers. The limited bargaining power suppliers may have is from the growth of other brands, whereby they can attempt to switch customers. However I believe this is weak as each brand will have individual suppliers and the more powerful they get the more bargaining power they will have.

**Bargaining Power of Buyers**

Bargaining power isn't measured by the number of people complaining in store, it's most evident by the shift in consumer spending from one type of product to another. As fast food chains and other substitutes are so easily accessed, and there's relatively no switching costs, the individual consumer can simply go elsewhere to spend their money. McDonalds may notice this change in footfall but unless there are vast numbers, individual people still have little persuasion or power to negotiate over the price they pay for their lunch. However, if individual consumers choose to act in unison they may be able to exercise power. An example of this is, in the mid-1990's when the health scare over British beef erupted, McDonald's faced the prospect of large numbers of its consumers acting together and refusing to buy their hamburgers. Therefore it switched from suppliers of British beef to supply of Dutch beef. An emerging issue is the pressure on fast food prices, as value for money becomes a key trend this will become more important consideration for customers. One pound menus will become more popular as consumers impacted on by the recession looking for a cheaper option, this will push down the average transaction spend. Also Meal deals have become very common place in the fast food sector, with all the big brands offering them.

## Appendix 2 – LoNGPEST Analysis

### Local Political

The first political issue at a local level that will affect McDonalds is local government legislation. McDonald's need to make sure they adhere to employment legislation such as the Minimum Wage, Working Time Directive

and Working conditions legislation. McDonald's needs to make sure it cooperates with all the employment legislation as McDonald's is a global company a negative story about their employment methods such as paying below minimum wage could seriously affect their reputation at a local level.

At a local Level McDonalds also need to have an understanding of the Waste Management regulations that will involve their restaurants. McDonald's will need to make sure they deposit their waste material in the right way and don't cause any contamination of the local environment. This could lead to fines or a worse public image to the local population around the restaurant.

Another political issue that will influence McDonald's is trade unions in the local area. If employees are unhappy about pay or hours of work then they will go to their local trade union leader to complain about the current working situation. This could influence McDonald's as they will need to make sure they have the right amount of employee interaction in their store to keep all employees happy. At present McDonald's do not directly work with certain unions on all issues regarding McDonald's.

#### Local Economic

The local economy will also be an issue to McDonald's. For example if the local economy is performing well then the customer base for products and service will be large and profitable. However wages will be high and employees will be in short supply in the local population. Currently regions are in a depressed state where there is smaller opportunities for selling products and services with people having less disposable income. During the recession the local population's disposable income was severely reduced

with a lack in confidence to buy services and consumers more willing to save money than spend. As MacDonald's is seen by most people as a treat they are more likely to cut back on purchasing the product and look at other options.

The final economic issue which may affect McDonald's locally is the rate of unemployment in the local area. This issue could influence McDonald's as high unemployment levels in the local area could expand the range of employees for work but could mean more workers without the required skills to work in the McDonald's stores. This could increase the amount of money McDonald's have to spend on training their staff.

#### Local Social

The first socio Cultural issue at a local level is the local community around McDonald's store. McDonald's will have a direct influence of the quality of life within the local community. If a Macdonald's is created in a small town it may increase traffic volume which will have an affect on the quality of life for the population. An increase in traffic volume could be a benefit to other shops but it could also be a disadvantage with a higher risk of pollution and higher risk of accidents. Also a McDonald's store opening in a small town or village may lead to local suppliers of fast food been but out of business such as fast food takeaways, chip and fish shops which may have been around a long time within the village. This could give McDonald's a bad public image in the community if they are putting other providers out of business.

The second socio Cultural issue at local level is Social Change within the local area. As fast food companies have become more under pressure from the

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local and national media their has become a growing trend for people to look for more healthy options. This will be an influence for McDonald's as they will need to start expanding their range of healthy goods to attract the new consumer demands. McDonald's have already began to implement new salad options to their product range to attract new consumers who are interested in healthy products. McDonald's are also trying to provide information about where their suppliers are based for their ingredients. Many consumers of McDonald's are now wanting to know how chicken products are farmed for McDonald's so the company is trying to provide information to consumers. On the McDonald's website the company goes into detail regarding the source of their ingredients. McDonald's have had to provide this information as recently there has been many high profile TV programmes that have questioned how McDonald's farm their chickens for their products. (Intel, Chicken & Burger Bars – Strengths and Weaknesses, 2008)

#### National Political

One political issue which may affect McDonalds is advertising laws. The government and the advertising standards authority have put pressure on fast food companies such as McDonalds to stop aiming their advertisements at children and young people and are no longer allowed to advertise at certain times of the day when children may be watching. This is to try to combat the problem of increasing obesity in the UK and by stopping children from seeing adverts for things like happy meals etc. they are less likely to want them. (Intel, Chicken & Burger Bars – Issues in the Market, 2008)

Another political issue which may affect McDonalds is minimum wage. The government controls the minimum amount which companies have to pay their staff. If the minimum wage was to be increased by the government then it would mean an increase in costs for McDonalds. With them being a global brand it is very important that they comply to these rules as they don't want to end up with a bad reputation for not paying their staff fairly.

### National Economic

One economic issue which may affect McDonalds is exchange rates. The British pound is currently very weak compared to other countries. This is a bad thing for McDonalds as it means any money which is made in the UK will be worth less when it is exchanged into another currency which will mean lower revenues for the company.

Another economic issue which may affect McDonalds is the current economic situation. With the UK being in a recession people now have less disposable income and therefore are more likely to spend their money on necessities rather than luxury products. McDonalds could be seen as a luxury product as although food is a necessity there are cheaper alternatives for people to buy rather than fast food. However from research we have found it would suggest that the fast food market hasn't been affected by the recession. This could be due to the fact that although there are cheaper options it is still not a very expensive thing to buy so people are willing to buy it. Also with it being a convenience food people who don't have time to cook are still going to be buying it.

### National Social

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One social issue which could affect McDonalds is that there is an increasing amount of single person families. This is a positive thing for McDonalds as a chicken or a burger meal is a lot more convenient compared to cooking a meal for one. Also people are more likely to get food from a fast food outlet than to go to a restaurant as sitting alone in a restaurant could be seen as intimidating for people. (Intel, 2008)

Another social issue which may affect McDonalds is that people are now starting to eat more healthily. People are now a lot more concerned with their health due to the government making people aware of the dangers of not eating healthily. There are now more healthier options available for people who are wanting something quick and convenient such as the Boots Meal deal which is the same price as a McDonalds and still tastes as good but is a lot better for their health.

#### Global Political

One political issue which may affect McDonalds is alliances and agreements. When McDonalds expands to other countries it has to be made sure that the two or more countries regulate the conduct of international trade and commerce. It was easy for McDonalds to trade with The UK and US are an alliance because of their history, in the 1980's the close friendship between Margaret Thatcher and the US republican president Ronald Reagan. This was not however the case for all countries as for a country such as India for example McDonalds had to think about the different laws that they would have to abide as they have religious laws. They also have trading laws as

most of the country are vegetarian they may have to have certain staff who do not touch the meat as they are against it.

Another political issue which may affect McDonalds is Health and Safety. In all countries there are Health and Safety laws for within the workplace. It is important that McDonalds abide by these rules not just purely for health and safety but also to keep up their reputation. Also with it being a food market it is even more important. There are the general health and safety acts that apply to all companies as workers have the right to work in an environment where health is not a risk and the odds are you won't get hurt or ill through work. Managers would therefore have to firstly look at what decide what can harm you in your job and work out the precautions to stop it by doing risk assessment. Also they should give employees health and safety training that is required to do the job free of charge before the employee starts work. Also any uniform and protective clothing should be provided for example hair nets and gloves for hygiene reasons.

### Global Economic

One economic issue which may affect McDonalds is the exchange rate, import and export tax. Both the exchange rate and the import and export tax has a major effect on the company as it can hugely affect profits depending on whether the pound is strong or weak or whether the tax is high or low.

Another issue is labour cost, levels of disposable income and income distribution. When expanding globally it was important for McDonalds to look at the difference in the other countries economy when regarding to the labour cost, levels of disposable income and income distribution. As for some

countries the labour cost could either be a lot cheaper or a lot more expensive which is important for McDonald's to know as this affects profits. Also the levels of disposable income and the income distribution in the area McDonalds planned to place the outlets as if they were placing it somewhere where the disposable income was r