

McDonalds environmental factors pest analysis



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This report consists of two parts as required. In the first segment, to illustrate the environmental factors influencing McDonalds, PEST analysis is used placing importance on main drivers. The second part contains critical analysis of current SWOT strategies of McDonalds covering both pros and cons of them. That's how the structure of the report is designed to comprehend McDonalds and its strategies better.

McDonald's (NYSE: MCD) is the world's largest fast food provider and recently ranked as the ninth most important brand in the world. Founder Ray Kroc first opened it in America in 1940. Worldwide, this leading chain is now serving over 47 million clients every day with its more than 35, 000 shops in 119 states. McDonald's has approximately 31377 restaurants as a whole of which franchisees run 20505(65%), partners control 13 % (3966) and the rest 22 % (6906) is operated by the company itself. It has 1. 5 million employees comprising 398000 company staff and 1. 1 million franchisee staff. Hamburgers, cheeseburgers, breakfast items, soft drinks, milkshakes, chicken products, French fries, and desserts are its main products. By the end of 2007, McDonald's revenues breed 27% than the previous three years to 22. 8 billion and operating income grew 9% to 3. 9 billion. Currently, Jim Skinner is holding the position of CEO of McDonald's and the tough contestants are Burger King's, YUM! Brands, Wendy's, and Hardees.

Objectives:

The objectives of the report are to:

- Converse the factors impacting upon McDonalds.
- Emphasize the key environmental drivers.

- Comprehend the SWOT analysis of McDonalds.
- Evaluate current strategies of McDonalds.

Methodology

Study Design:

Information necessary for the study has been collected from different sources through specialized methods. Other than some graphs and tables, the assignment is descriptive in nature. Secondary sources like books, journals and internet is used for relevant data.

Data Collection methods:

Data mainly collected from two sources. These are as under:

Primary sources:

Employee interview at McDonalds.

Secondary sources:

Assigned text book.

Class notes and other related books.

McDonald's publications.

The internet.

Information collected have been amassed and offered in this assignment after data processing and analysis.

Requirement 1:

Environmental factors impacting upon McDonald's

McDonald's as like others is influenced by some environmental key drivers.

The best way of pointing out them is the PEST analysis which is as follows:

PEST analysis of McDonalds:

PEST analysis shows an absolute structure of environmental factors that influence a company where P stands for Political, E for Economical, S for Social and T for Technology. The future of a business, its success and survival depends on the environment where it operates. Without considering the external environment, a business cannot have the accurate marketing mix and the exact product portfolio to win the market share.

(P)olitical factors:

Political environment consists of the government activities covering the economy and its subdivisions. Ecological regulation, business margins, tariffs, income tax policy, labor rule and political constancy are some of the main components of it. The safety, schooling, and infrastructure of a nation are also the concern of government.

While operating globally, different types of taxes cover up a significant company obligation. Countries with strong consumer protection laws may associate great costs if there is a violation in product quality or service through litigations and lawsuits.

For instance, in 2006, a lawsuit against McDonald's that it misinformed about ingredients of french fries and hash browns. French fries and hash browns

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are fried in oil consisting of 99% vegetable oil and 1% natural beef flavor. Casein (a dairy product) and wheat bran were partly used to make the beef flavor. But before serving, McDonald's again fries the potatoes in 100% vegetable oil. Plaintiffs charge that McDonald's deceived by claiming French fries and hash browns gluten, dairy and wheat free.

However, these lawsuits have cost a huge for paperwork, diagnosing customers, court and legal fees and also the market image of McDonald's goodwill. So it is very clear that McDonald's as a food provider is much more affected by these political, legal and customers safety issues. On the other hand, health experts and consumer advocates blame McDonald's for contributing to health issues of heart attacks, diabetes, high cholesterol and obesity.

Countries with flexible consumer safety laws are a source of extra provision for McDonald's. Differences in individual country's government policies extremely influence McDonald's international operation. Favorable and stable political situation, legislation, legal procedure and sustained use of logo are just an indispensable part of the business success. However, McDonald's is proved adequate in favorable legislations and right use of logo.

(E)conomic factors:

Economic expansion, the rates of interest, exchange and inflation comprises the overall economic environment. They extremely affect a business's function and core decisions. Cost of capital is the main determinant of a business escalation and growth. This cost of capital often fluctuates with the

movement of interest rates whereas exchange rates affect the cost of exporting and price of imports.

McDonald's practices hardship in countries that is hit by inflation and fluctuations of exchange rates. As a market leader, McDonald's most often focuses very high target market which works as an additional advantage as these markets are rarely unstable. The major portion of their cost comes from gas prices as their main transportation system to move 100% of the products runs by gas guzzling trucks.

The purchasing power of consumers is determined by the economic growth of the particular state. For instance, in Pakistan, McDonald's food prices are at higher rate than the local restaurants always. But majority of the Pakistani's live in the middle class group who obviously consider McDonald's as unaffordable at regular basis. For this tendency of people and economic downfall of recession, McDonald's profit might have declined if people continue to consider it as luxury.

Product lines and pricing:

McDonald's first and foremost sells hamburgers, french fries, soft drinks, breakfast items, various types of chicken sandwiches and desserts. In most markets, McDonald's also offers salads and vegetarian items, squashing and other unique local products. Soup type products are served only in some selected countries like Portugal etc. And for this special deviation from its standard menu helps McDonald's to be popular among the countries other than its homeland. Sometimes this difference is employed either for regional food taboos and religious prohibition like the one in India as no beef is

served there. In India, non-vegetarian menu contains chicken and fish items only. This strategy is also used to serve food with which the local people are much familiar such as McRise in Indonesia. McDonald's offers several flavors of Mcflurry ice cream from a mix of M&Ms to Oreo cookies.

Much is talked about McDonald's pricing strategies and its menu price differs in different countries. Also the higher price in the local restaurants very often becomes burden for the customers. For instance, when monthly income of key city inhabitants in China just ranged from 120 yuan (\$17.54) to 130 yuan then Big Mac of a 10 yuan and a 5 yuan double-cheese burger were not reasonable for the majority. So it is a threat for McDonald's where other competitors are focusing much on it to grab more customers. So McDonald's can develop a good, healthy and affordable range of snacks for people who can't afford a full meal.

Customer's preference:

With a brand value of \$49.5 billion, McDonald's has grown 49 percent in worth and now is the most favored brand in the fast-food group. Behind this customer's preference, state-of-the-art and smooth food menu of McDonald's act as a helping hand. McDonald's innovative choice and giving importance to the people's ever-changing demand with due progress, technology and development is the key to McDonald's present situation. Now a day fast food cafes are becoming the dining hall of the majority for superior child-size menus, playing grounds and impulsive branding crusades.

Competitors:

One of the environmental factors surrounding McDonald's is the fierce competition from the competitors. There is an intensive price war, extreme battle of innovations, breakthrough and serious promotions and advertisements. Different competitors in the global fast food industry are now just going mad about increasing competition that led to aggressive pricing strategies amongst the large brands. Competitions also pushed them to increased menu diversification, product developments for increasing sales and market share and at least maintaining current market share.

Burger King's, KFC, Pizza Hut and Wendy's are the main rivals. McDonald's compete with them in international, national, regional, local and retailers of food products. Restaurants, quick service, pizza, coffee shops, and supermarkets everywhere McDonald's has to face them.

Aggressive strategy of competitors such as Burger King's for Asia and McDonald's poor customer satisfaction level than that of Wendy's and Burger King's is a great threat for it. In China KFC is more accepted whereas McDonald's expanded too fast than keeping tastier meals.

(S)ocial factors:

Population growth, career opportunity, cultural distinctiveness, health of the masses and social security build the ground of societal factors. McDonald's food products demand and its operational strategies differ greatly to cope with the movement of these factors.

At the time McDonald's started in Pakistan, fast food was not very popular to Pakistani people. With the passage of time and the changes of the eating habits and lifestyle, fast food got its acceptance. McDonald's also keeps <https://assignbuster.com/mcdonalds-environmental-factors-pest-analysis/>

providing Halal food to consider the religious and cultural issues. But at times anti American feeling and prohibition of American goods affects McDonald's. McDonald's customized its menu in accordance of the Pakistani tastes.

McDonald's does not offer bacon in Pakistan as people do not eat it. In Pakistan, McDonald's can introduce breakfast items to cater the office goers need as they run hurry to get to office in time. It would help to gain an edge over competitors and increased growth.

Backing of rainforest to save it from being extinct is considered as a corporate social responsibility. Increasing employment through joining with many ethnic groups and the alliance certification program with a cup of tea for everyone at 1200 McDonald's in UK are also some mentionable social duties by McDonald's. In 1974, McDonald's established a charity house named Ronald McDonald House that helped over 10 million people since incorporation.

Diversity:

Diversification is a must for operating globally. McDonald's has over 30, 000 restaurants worldwide containing owners, franchisees, staff and customers from approximately every culture, religion and traditions on earth.

McDonald's controls its own restaurants and franchisees comprise about 70% of the world's McDonald's. A gigantic prospect for McDonald's is the increasing global middle class especially in China, India and Latin America.

McDonald's considers diversification as a mean of profitability and risk minimization. For great interpersonal relationships, McDonald's got huge recognitions namely PUSH-Excel Corporate Partner Award, Corporate Vision Award, Circle of Inclusion Award, Corporate Achievement and Image Award and Nullities Corporate Award.

Population growth:

Population is also a major participant of environment with the boost of which the sales volume and operating income mounts. In the United States, customers spend approximately \$110 billion on fast food in 2000 (which was \$6 billion in 1970). According to the forecast of National Restaurant Association, fast food restaurants sales will reach \$142 billion in 2006, showing a 5% increase over 2005. In contrast, the full-service restaurants are anticipated to make \$173 billion sales.

Environment:

Environmental factors embrace weather conditions, atmosphere, and environmental change that affect industries like tourism, insurance and agriculture. From 2007, McDonald's begins its new environment friendly packaging. McDonald's commits to environmental safety through worldwide recycling and reuse, efficient resource management and waste disposal. McDonald's environmental achievements are praised by Keep America Beautiful, the National Recycling Coalition, Conservation International, the U. S. Environmental Protection Agency and Audubon Society. McDonald's is trying to illustrate its "greener" side by an innovative institutional marketing

endeavor, “ Global Best of Green.” McDonald’s has taken numerous plans as a part of this marketing effort worldwide.

Communication and friendly interior:

McDonald’s has constantly guaranteed friendly surroundings for customers. Children love McDonald’s environment, the happy meal and gift toys. Children go and make friends while playing in the play place that serve as a huge attraction. Employees are very decent and polite and always ready to provide with the best comfort and convenience with quality food in each and every best possible ways.

Health consciousness:

Now a day people are blaming the fast foods for increasing health problems mainly obesity and eating disorders. Customers are now more health conscious and careful about nutrition elements in food products. It’s an opportunity if McDonald’s can make healthy food variations including salads, baked potatoes and sandwiches. Low calorie burgers and right and less oily healthier fries will be just great. McDonald’s competitors have already included salads, snack wraps, fresh fruits and white meat in their menus. Subway is offering low fat veggie and chicken sandwiches. From 2003, McDonald’s premium salads were introduced and in 2006 snack wraps were initiated. An announcement by McDonald’s said that from March 2006 nutritional information will be available on every of its food package.

Human resource management:

McDonald's has a huge workforce of 1.5 million staffs around the world with greatly structured benefit and training facilities. Benefits includes competitive wages, uniforms, flexible hours, paid vacation, bonus scheme, MAC card, haircut discounts, wages increases, life insurance, education support and stock purchase plan etc. McDonald's is one of the equal opportunity employers that promote employees on the basis of expertise, ability and performance.

McDonald's discourage any illegal discrimination, pestering and maltreatment in the working environment. Employees are considered as team members with equal valuation of everyone's opinion. The Human resource department observes the implementation of the unfairness policies at periodic gap and catch remedial actions to ensure their compilation. Employees feeling unfair treatment are encouraged to use Company's handbooks where remedies are outlined.

(T)echnological factors:

Technological factor's main elements are R&D, computerization, technology motivation and technological change rate. Technological movements affect expenditures, excellence, and innovation and machine made food is more hygienic. McDonald's employee's quick service and quality food standards are the result of its high-tech operating procedure. Customized database management system and computers and smart cashiers are used in McDonald's to speed up serving and operating excellence.

McMommy Blogging Society:

In December' 2007, McDonald's opened up its kitchens to the group of mother bloggers to report allegedly unedited findings on McDonald's website and on blogs in the Internet. McDonald's goal was to make their cooking processes more transparent. It kicks out stories of fattening, unhealthy food rumors in books like " Fast Food Nation" and movies i. e. " Super Size Me." McDonald's equipped six mothers chosen from 4000 applicants with laptop computers to record their impressions of its operations over the next few months. Nothing like this has ever been done on the internet by a fast food company before.

Hamburger University:

Hamburger University was founded in 1961 at a McDonald's restaurant in Elk Grove Village, Illinois. Now it stands in a suburb of Chicago at 2815 Jorie Boulevard in Oak Brook, Illinois. It has 30 resident professors and more than 70000 managers have graduated from here. Today Hamburger University has 19 full time intercontinental coaches to educate apprentices of more than 119 countries. It comprises 13 teaching rooms, 12 interactive group rooms, a 300 seats lecture theater, and 3 kitchen labs. It has professional translators who can lecture in 28 different languages. Over 5000 students attend there each year and employees obtain 32 hours of training in the first month. With a " McDegree", graduates get jobs in special labs to invent new ways to enhance menus in an efficient way and keep the same superior healthy taste of its products worldwide.

Hub curriculum:

McDonald's has a worldwide hub curriculum for restaurant supervision that helps good marketing strategy for recruiting and maintaining employees. Utilization of technology and routinization of work are the main bases of McDonald's success.

Requirement 2: Critical evaluation of the current strategies

Market development: expand into Chinese market through increased advertising and restaurant locations.

McDonald's first introduced in China in 1990 in Shenzhen. From then it expanded its wing all over China steadily and won the local customers through Big Mac, Ronald McDonald clown, M logo and golden arches. After United States, China is the prime growth market for McDonald's having 960 shops and over 60000 staffs. Growing population and a 6% increase in shopping centers. Chinese believe drive-through an innovation as car owners are mounting very fast. McDonald's drive-in services are criticized all over the world and complaints come that the orders are either are entirely wrong or missing some of the items.

McDonald's offered food to almost 54 million consumers per day and in US, 48. 5% of expenditure on food goes to food taken away from home. At the end of 2004, McDonald's got 600 restaurants that rise from 460 at 2002. But KFC, the major competitor in China operated under YUM! Brands, expanded its shops to 1200 in number. YUM! Brands ROA is 13. 56% where McDonald's has 9. 74%. YUM! Brands aggressive expansion continues in 2006 with 375 new stores and it gained 1 billion on gross sales of 9 billion in 2004.

KFC is the first quick service restaurants in China since 1987. It started Drive Through in 2002 and it's the pioneer in franchising at 1992. Even today it's the number one quick service store and fastest growing café in China with more than 2700 stores in 550 cities. It is expanding at a rate of one store per day and had 500 new restaurants in China in 2007. YUM! Brands also consider China as their first growth market that yielded 469 million operating profit in 2008

So there is no way open for McDonald's other than following the aggressive expansion strategies for more stores. But as it is a food service, the quality of food should also be taken as a consideration for which McDonald's must have lucrative advertising in newer ways to attract and retain customers.

Horizontal integration: acquire Krispy Kreme corporation

Integrating horizontally with other firms is common in McDonald's history. The partnership of COCACOLA is the greatest ever and still adds significantly in McDonald's operating profit. Having a quality drink with fast food as a bundle meal is great to customers.

Krispy Kreme's parent company is Krispy Kreme Doughnuts Inc. from Winston-Salem, North Carolina, United States. Recognized best as chain of doughnut stores, it inaugurated stores outside the southeastern United States in 1990 to expand faster globally. At the end of 2001, in Canada, Ontario and Mississauga, it unlocked store to enlarge outside the U. S. from 2004, Krispy Kreme rapidly advanced in its international business.

Apart from the rapid expansion rate, the company's profit margin is not satisfactory and falling down recently. Hence the management team is not

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well organized to utilize their resource and network advantage properly. If McDonald's acquire Krispy Kreme then there will be two benefits:

Firstly, McDonald's can use the extra readymade stores of Krispy Kreme to expand itself with less competition now.

Secondly, the most pronounced doughnuts menu will boost McDonald's product diversification and Krispy Kreme's customer base will increase profitability.

Recently Krispy Kreme faces a huge threat of bankruptcy and hence it is the best opportunity of McDonald's to acquire Krispy Kreme at its least possible price and implications. McDonald's also has huge funding sources to integrate and thus fund will not a problem. McDonald's should integrate with Krispy Kreme and spread and promote its presence further.

WO strategies

Product development: menu development (healthy lifestyle and Hispanic food lines)

In these days, people want to form their lifestyle healthier with ultimate health consciousness in every nook and corner. They want to eat healthy and live healthy. They are getting choosy for food items and consider low fat and less oily food healthier to fight against obesity. There is a mounting awareness for diet control and food related disease. People demand low calorie food like salads and high fiber food with increasing awareness about food and balanced diet. Subway is offering low fat veggie and chicken sandwiches.

To cope with this new move, McDonald's competitors already begun to embrace healthier alternates like salads, white meat, snack wraps and fresh fruit. From 2003, McDonald's premium salads were introduced and in 2006 snack wraps were initiated. An announcement by McDonald's reports that from March 2006 nutritional information will be available on every of its food package.

Now, menu development is a must for McDonald's to catch up this health concern as an opportunity. McDonald's should include new products with less fat and oil to provide healthy foods. Hispanic food lines should also be considered as Hispanic inhabitants have augmented by 14 percent in the U. S. Thinking clientele wants and reshuffling menu will make McDonald's market share and goodwill better. In this sky high competition, menu diversification is the ultimate and premium way to retain profit and customer.

ST strategies

Forward integration: increase the number of restaurants located in theme parks (Disney and Ocean parks)

Theme park provides a bundle of rides, means of entertainment and a vast space to roam around having clowns, play items, toys and child recreations. It became the prime source of entertainment for child of busy families as they get all in one place. That's why theme parks are now getting more focus and popularity to enjoy with families. To spend leisure after the office work and for amusement theme parks are the best choice. It's a fantastic place

where child like to play, roam, share and most importantly eat as they get hungry.

So, theme parks have a great potentiality for McDonald's to focus for more profit. Disney's theme parks and Ocean Park in Hong Kong is already McDonald's served area. It shows that McDonald's targeted children and kept parents happy through providing safe and clean environment and playing space for children.

McDonald's offers birthday celebration opportunity to the clients especially children. Stunning decoration for the party area, various party games and distinct face painting program are arranged where one can invite friends. Children get the opportunity to celebrate this special day exactly the way they want.

McDonald's collaboration with Disney's Parks is just adequate. However more restaurants should be opened up in the Ocean Park as China is McDonald's growth market. Confining only in the Disney's and Ocean Park will not be a great idea. McDonald's must also consider other amusement parks, sea beaches and tourist attractions to diversify more. Locations to enhance collaboration should be checked, ranked and selected on the basis of popularity.

Market penetration: Increase advertising of coffee lines in key markets like China and North America

Burger King's, the major competitor, has a sales growth of 18.2 percent than McDonald's 11.2 percent. But when the things come to Coffee, McDonald's is undoubtedly the best. According to customer's preference, McDonald's

hammers out Burger King's, Starbucks and Dunkin' Doughnuts in a coffee taste test. McDonald's publicized that they'll mount coffee bars this year in 14, 000 U. S. locations.

McDonald's will provide high-end coffee drinks same as lattes and cappuccinos with its drip coffee. Automatic McDonald's process uses a single machine that heats the milk and stirs with the espresso which reduces some of the drama and ceremony of preparation of really fine tuned espresso. Promotion of these triumphant coffee lines in China and North America will fetch more market share and revenue.

WT strategies:

Product development: develop the menu to keep up with competition (Asian and Latin American items)

There is no other way than diversification to win the competition among the other fast food restaurants. To spread out in the Chinese markets along with the other Asian and Latin American countries, McDonald's has to think global but serve local with the popular foreign highly accepted items. The values, beliefs and the tradition naturally differ from one place to another. And to be the victor of the customers mind, products menu must be developed according to the choice and preference of the customers of the target market. Hence to grab the Chinese customers more smoothly, a pure Asian flavor will be the best key. So here is a question that why it needs the Latin American items? Yes obviously, traditional thinking is necessary but if thought from the other side it is also true that if the customers only get local food then why should come to McDonald's? Rather they better stay home

and eat homemade local foods from their kitchen. That's the only reason why inclusion of foreign items is still so very important. McDonald's still needs to penetrate in many countries especially in Europe, Asia and Latin America. And here is a great opportunity as burger kings, the major competitor of McDonald's, losses 10.95 percent market share in quick services sandwich chains. Changing trends in eating habits toward healthier eating can be seen as an opportunity for McDonald's. McDonald's introduced new premium salads and Fruit n' Yogurt Parfaits in the US which lead to growth in 2004 and the same products will probably bring some more growth in foreign markets. Also their attempt to arrange professional trainings for employees (Hamburger University) is noticeable.

Product development: Redesign websites to make it more user friendly and to compete better with competition

Updated technology and rising internet generations are moving today's world to a virtual one. Customers now browse and view the menu along with prices on the go as everyone is in hurry with limited time. Everything is going online and before going out for McDonald's customers either prefer to select their choice and order for home or go nearby McDonald's having everything known through internet to stay updated of all the fresh arrivals.

Huge complaints and criticism are there for McDonald's online operation since it started serving online facilities for customers. Clients and users believed that its official website's structure, design and browsing is not as user friendly like other multinational companies and competing brands.

While viewing the menu list, the upcoming items and to order their selected product, client face troubles and difficulties. Unlike other web pages,

McDonald's website is little bit complicated to browse and thus creates an odd browsing image to customers.

So technology concern is a must for coping with mounting competition. Redesigning McDonald's website to make it more user friendly and fight better with competition must be done as early as possible to provide customers more ease and ultimate internet convenience.

Market penetration: increase sales promotion and advertising expenditures in key markets.

Sales promotion and advertising are the key functions of marketing for both the manufacturing and service companies. When things come to food industry, it is much more important as there is great competition among participants. Tremendous advertising has no other equal alternatives to boost sale growth and get recognized among customers about products and services. The need of advertising is more now following McDonald's sales drop in Europe by 1.9% and Wendy's sales increases by 1.9%. Indicate that McDonalds need more advertisement. Though McDonald's has worldwide recognition as an established brand, people now care for improved hygienic foods and reasonable pricing rather than brand name. To remind McDonald's existence and draw customer's attention, huge advertising is necessary that focuses on customer's emotion, McDonald's value meals, new arrivals, religious and traditional celebrations, national historic days etc. Above mentioned ways help McDonald's to have a permanent place in customers mind, fight competition and economic downfall, and experience growth and recognition.

Recommendations

To make McDonalds more profitable and best food chain in the world, I suggest some activities to perform as follows:

- It should rearrange the existing strategies; find out new and innovative way to promote its products. For example: Involve celebrities in TV advertisements.
- It should the menu items, especially traditional food items. McDonald's competitors are adding more traditional food then McDonalds that will help them to attract more customers.
- It should increase numbers of restaurants in theme parks and social meeting places.
- McDonalds should try best to provide better and quick service through Drive-ins.
- McDonalds should make some food items that is totally different form the competitors for example: make such foods which will favorite to all generation people.
- McDonalds already have a program “ healthy lifestyle” so they should innovate some food items that is healthy and especially made for young generation people.

I believe that the perfect implementation of the suggested steps will help McDonalds to survive and win in the food industry for a longer time.

Conclusion

After analyzing the case, I obtained a lucid idea about universal operation and influencing issues of McDonald's. McDonald's must amplify its product line; incorporate breakfast, snacks, more deserts and items like Pizza McPuff.

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It should focus on hiring the right people and high staff turnover rate; lessen use of trans fat & beef oil and HCFC-22 that contributes to ozone depletion. Like KFC, it should promote through social networking sites and Celebrity Endorsement. It shoul