Analysing the porters 5 forces model essay

Introduction McDonalds Corporation truly began in 1954 when Ray Kroc decided that he would turn the successful Californian store owned by the McDonald brothers into a chain. Today McDonalds is the world's largest restaurant chain, worth over $70 billion (Yahoo7Finance 2008). McDonalds has grown via constant refinement of business practices and by knowing their customers needs. They have placed great importance on their long term relationships with suppliers and their aim is to ensure customers receive a consistent product quality.

Analysis of McDonalds Corporation using the Porters 5 forces model to asses its competitive position in the fast food industry. As the name suggests the Porters 5 Forces model focuses on 5 key factors affecting the environment in which a business operates. They are 1)Competitive rivalry 2)Power of suppliers 3)Power of buyers 4)Threat of substitute 5)Threat on new market entrants Each of these five areas can be looked with relation to McDonalds and there position in the fast food industry. Competitive Rivalry If entry into a market is easy then rivalry is likely to be high.

Generally rivalry will be high if, there is little differentiation between the product sold between customers, competitors are approximately the same size as each other, it is costly you leave the industry so they fight to stay in (Porter five forces model). Entry into the fast food industry is easy and there are many competitors all over the world. This makes competition a major focus. McDonalds however is far larger than most in the industry with 31, 000 outlets compared to its nearest hamburger competitor Burger King, with 11, 500 (Reuters, 2008). KFC (owned by 2nd largest competitor Yum! Brands (Yahoo7finance, 2008)), Burger King and countless others sell similar product to McDonalds, burgers, chips, drinks, combos and so on, so there is definitely strong competition for customers whom have a choice of places in which to buy similar products. McDonalds has placed a high focus on, among other things, offering Healthy choice options for customers having in 2007 earned the Heart Foundation tick of approval indicating that selected menu options are considered healthier choices (McDonalds Australia Corporate Social Responsibility Report 2007').

This health option has served to give McDonalds are point of difference from its competitors. Power of Suppliers Suppliers are essential to business have greatest power when are no substitute products or it is costly for a business to change suppliers (Porter five forces model). To assist with maintaining control over supply and quality, McDonalds uses suppliers which have systems dedicated to production for the company (McDonalds Australia Corporate Social Responsibility Report 2007'). In this way McDonalds can stipulate quality and it becomes very costly for the supplier to cease its contract with McDonalds. This leaves McDonalds in a commanding position regarding suppliers.

Power of Buyers Buyers can exert control over an industry when, there is little differentiation over a product and substitute products can easily be found, customers are sensitive to price and switching to another product is not costly (Porter five forces model). Substitute products of similar price and quality are easily found in the fast food industry, giving buyers great power and influence. There are a number of programs which McDonalds engages in to help set its self apart from others. They have there own charity organization Ronald McDonald House, they say they are consulting sustainability experts to develop an environmental strategy (McDonalds Australia Corporate Social Responsibility Report 2007') and have the Our Clean Streets Program litter patrol program (McDonalds Australia Corporate Social Responsibility Report 2007').

These initiatives, along with supporting local schools help to give customers reasons to buy at McDonalds. Threat of Substitutes The threat of substitute products is high for a business when prices of substitute products fall, it is easy for customers to switch products and buyers are willing to substitute (Porter five forces model). The fast food industry by its nature is easy for customers, so swapping from one place to another is very easy. McDonalds has competed strongly in the pricing area to maintain market share.

In an article by the SeattleTimes. com (Creduer, 2007) referring to McDonalds McCafe competing against Starbucks, Peter Kwiatkowski says McDonalds is " being extremely aggressive", " they are a lot cheaper than Starbucks coffee in general, and have the high quality to go with it". Remaining cheaper than the competition encourages customer loyalty. Threat of new entrant Threat of a new organization entering the industry is high when it is easy to enter the industry i. e. entry barriers are low (Porter five forces model).

Even though entry into the fast food industry is quite easy at lower levels, due to McDonald's size (nearly 3 times larger than its nearest competitor Burger King, mentioned earlier), it would take an enormous amount on capitol for a single new company to compete with them in a major way. Conclusion The 2 most dominant factors influencing McDonalds are competitive rivalry and power of buyers. To give larger control in these areas McDonalds would do well to bring some of its main competitors under its control. By using their considerable size and resources to buy out the competition and either continue running those under the successful McDonalds model or fazing them out in favor of further McDonald's outlets.

Reference List Creduer, Ueno, Encz, 2007, ' McDonald's challenges Starbucks with cheaper lattes', The Seattle Times, viewed 18 September 2008,

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