

# Strategic analysis of mcdonald in india business essay



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McDonald in India is a joint-venture under the ownership and management of two Indians, Amit Jatia and Vikram Bakshi . Amit Jatia is managing director of Hardcastle Restaurants Pvt. Ltd. owns and spearheads McDonalds in west & south India. However, McDonald in North and East India are managed and owned by Vikram Bakshi who is the owner of Connaught Plaza Ltd as well (McDonald's India, 2009).

With success and leadership spanning over 12 years in the Indian Industry, McDonald is having a network of over 170 restaurants in India, with initiation of its business in the country in 1996. Company spent four years in developing its unique cold chain, resulting in bringing a revolution in the industry in terms of food handling. This investment benefited farmers in terms of avoiding risks associated with food handling and consumers in terms of provision of fresh and quality food products at great value (McDonald's India, 2009).

### **McDonald's Business Model in India**

Business model, according to McDonald (2009), is based on four main pillars. And these pillars are fresh food, affordable prices, fast service and limited menu. As per McDonald's India (2009), first pillar, fresh food is the outcome of the initial investment in the development of unique cold chain. In fact, the company's integrated supply chain and its focus on centralized customers service are the among the key core competencies. Similarly, affordable prices distinguish the company from its competitors. However, the trust of the company on limited menu needs to be changed because of the demands and eating habits and preferences of the Indian customers.

## **SWOT Analysis**

In the growing market of India, following are believed strengths of McDonald.

### **Strengths**

#### **Flexibility and Innovation in products**

Adaption to the market of India, particularly, meeting the religious and cultural demands of the customers. According to Jauhari (2007) initially McDonald dropped mutton, beef and ham burgers from its menu in India keeping in view the life style, religion and eating habits of the customers, and introduced vegetarian products. In case of sauces, the company provides 100% vegetarian sauces. The company understands of the consumers' preferences and its ability to respond quickly through innovative ways is one of its strengths. This is what helps the company to successfully work on its strategy of think global and act local. Jauhari (2007: 135) states that

“ McDonald stays ahead of its competitors by being innovative and looking for new opportunities”.

Jahuri (2007) states that company has introduced innovative ideas such as various packages for family and children and these innovative product offerings have created intimacy with customers. Further, its use of local people in its staff helps the company to create trust among the customers and to avoid any political pressures and issues (McDonald, 2009).

## **Supply Chain Management**

Supply Chain is amongst important aspects that ensures success in the current era of competition. And according to McDonald (2009), Supply Chain model is amongst the utmost precisions. This matchless supply chain structure not only ascertain on time raw materials and supplies delivery but also helps the company reduce its cost, resulting in maximizing profits along with enabling the company to maintain high quality standards (McDonald (2009)). The commitment level of the company can be seen from the huge amount in its supply chain model even before the start of business in the country in order to establish its delivery mechanism (Kulkarni, 2009). The company's efforts to develop a well-organized supply chain structure and set up modern technologies brought enormous changes in the entire fast food industry in India, raising the performance standards which seem to match international levels (Kulkarni, 2009).

Kulkarni (2009) further states that the company's joint ventures with local suppliers and distributors helps the company to act proactively through the use of these information channels and these long term relations help the company to reduce its costs, improve quality and create intimacy in the market as well. Hence, supply chain integration is one of the strengths of the company. Cold Chain has been amongst the unique ideas initiated by McDonald in India after the efforts of six years efforts (Kulkarni, 2009). In fact, McDonald (2009) states that this revolutionary system offers immense advantage to farmer on the one hand by reducing the risks on perishables, and provides advantage to the customers on the other hand by offering them quality and fresh products at great value. Kulkarni (2009) also

mentions the benefits of the cold chain stating that cold chain has enabled the company to reduce the costs and minimize wastage of perishables, on one hand and on the other hand, this cold chain helped the company to satisfy its customers by maintaining freshness and nutritional value of the products and relevant raw material.

### **Affordable Prices**

In fact, this is again one of the innovative strategies that have widened the customer base of McDonald in India. McDonald used various price strategies for its customers and offered different food to match the target market (Kulkarni, 2009). McDonald initially was believed to have high prices in India and therefore, expansion outside the metros was unlikely because of affordability problems. But the company changed the perception through its flexible and innovative offers (Kulkarni, 2009).

### **Centralized Customers Support Service**

Similarly, joining hands with vCustomer Corporation has helped the company to deliver the services to its customers through a centralized system, providing the customers support services and helping them to place an order (Kirkland, 2008). However, one of the main benefits this partnership provides is the information about the desires and demands of the customers by separating order and non-order calls (Kirkland, 2008). This helps the company to take corrective actions. Hence, focussing on customers with every possible way is amongst the strength that helps the company to understand and respond to the target market' demands.

## **Weaknesses**

### **Limited Menu**

The menu McDonald offers, however, is limited which can be argued not to fulfil the market demands (See Kulkarni., 2009). The fast food concept of Indian people can be deemed different than that of its European market (Goyal and Singh, 2007). For instance, Indians generally prefer spicy tandoori and curry food (McDonald, 2009) and Hindus do not eat meat (Cow particularly) and Muslims do not eat pork due to their religious restrictions (McDonald, 2009; Goyal and Singh, 2007). Further, according to Kulkarni (2009), Indian culture is diversified and different regions have different regions and such differences have been a challenge and demand the company new markets regularly in the market

### **Inefficiencies in Home delivery**

The company has weakness in its delivery of orders in the Indian market ([www.mcdonaldsindia.com](http://www.mcdonaldsindia.com)). This weakness in fact is the lack of speed in its delivery and unavailability of delivery service in many of outlets. This is hampering its sales and gives its competitor to get the attention of its customers by offering the service in more efficient way.

### **Global Warming**

The company uses material in its packaging which is harmful to the environment, causing damages to the Ozone layer and contributing to global warming (Kulkarni, 2009). In this way, McDonald is not fulfilling its social responsibility and this is one of the weaknesses in the business environment

where governments, agencies and media are focusing on such issues and consumers are becoming aware of such phenomena.

## **Opportunities**

### **Expansion**

India is a huge market (Jauhuri, 2003). Expansion strategies of McDonald and its current business model of expansion provide an opportunity to enhance its market share by opening its outlets in other areas of the country (See McDonald, 2009). According to ([www. mcdonaldsindia. com](http://www.mcdonaldsindia.com)), huge potential of growth exist in the market because there are many areas or cities in India which are currently not served by the company. Changing gender roles, paucity of time, customer sophistication and confidence, double income group and large population of India in them can be argued as opportunities for McDonalds (Keshwani et al., 2009).

### **Out-of-Home Breakfast**

According McDonald (2009), research indicates that a large percentage of people in big cities have a desire to have breakfast out of their home if suitable breakfast is available. And changing gender role (McDonald, 2009) can be believed one of its reasons. This is another opportunity for the company to increase its sales by capturing such market segment by serving breakfast in its outlets.

### **Better Home Delivery**

As discussed earlier, inefficiencies in home delivery provides another opportunity to enhance its customer base. This includes, both, provision of

faster delivery and expansion of their home delivery across all outlets in India.

## **Environmental Friendly Packaging**

If company uses other type of packages that do not affect the environment, it can be an opportunity to create a positive image and to avoid any future embarrassment from any of the agencies and government.

## **Threats**

### **Religious and political confrontation**

As mentioned by McDonald (2009), in 2001, the company has faced such challenges. Many outlets in Mumbai were in face of having problems from the anti-American elements in the country. Similar threats are from the religious groups as well if there is any mistrust in the company's products which are against the religious codes of Hindus and Muslims in the country. As said earlier, the company in Western markets uses pork and meet and this matter was politicised in early 2000 and hence if mistrust is created, it can harm the company's image and can negatively affect its sales and market share.

### **Changing Customers' preferences**

Changing customers lifestyle and may tend to eat different and more healthy food (Sharma, 2005). The current concept of fast food may be replaced by new trends in food such as use of genetically modified food (Onyango et al., 2004). According to Goyal and Singh (2007) in India, there is high concern of healthy food because Indian people are facing the issues of Obesity and one



reason for this problem is use of fast food which is high on calories and fats. The role of Media has been vital for such awareness among the consumers.

## **Competition from Local Food Companies**

As suggested by Kulkarni (2009), though currently none of the local food companies can be said to be national, yet they have been growing with a speed that can be a threat to the multinationals such as McDonald. Given the opportunities in the market, local companies such as Nirulas can be potential threat in future.

Nevertheless, given the innovative strategies in its product offerings, pricing, supply chain model, focus on understanding the demands and desires of customers, and flexibility, McDonald can be believed to overcome its future threats and convert its weaknesses into its strengths, eventually helping itself to grow in the huge market of India.

## **Porter's five forces Analysis**

Porters' five forces model is founded on the idea that strategy of an organization should be according to the threats and opportunities in the external environment of the organization. Particularly, competitive strategy is needed to be based on understanding structures of the industry and the ways these structures transform (Porter, 1985). In fact, Porter recognized five competitive forces which, according to him, form every market and industry (Porter, 1985). The five competitive forces, together, shape competition and its intensity, therefore industry attractiveness and its profitability. According Porters' model of five forces, the purpose of firm strategy is to transform the constituent forces in order to make them work in

the favor of the company and strengthen the position of the firm in the industry. According to Chapman (2005), on the basis of obtained information from this model, decisions should be made to affect or to manipulate certain features the industry. An analysis of the industry to help McDonalds' management to benefit from the industry has been provided below.

## **Competition**

This industry is very competitive. Many large and small companies exist in this industry, fighting for improving the customer base by offering a range of products and services. Same is the situation with McDonalds in all over the world and India is not an exception. Presence of Dominos, Pizza corner, KFC, Barista and many of the local food companies in India are the threat for McDonald in India (Jauhari, 2003). High exit barriers, and low switching costs are also the part of the factors that increase the threats because high exit costs, on one hand, can force the companies to compete and survive in the same industry. On the other hand, low switching costs for consumers in the industry is a serious threat for McDonald because availability of choices can mean more buyer power and loss of customers.

## **Entry**

It is tough to come into this industry as it is difficult to create a distinctive brand name. Further, cost of entry associated with high research and development cost makes it difficult for the new entrants. Large reputable names in the industry such as McDonald make it hard for the new companies to enter and succeed in a given market. Similarly, high fixed and storage costs for perishable also are barriers to entry of the new firms in the industry (Jauhri, 2003). However, in case of McDonald in India, it can be seen that <https://assignbuster.com/strategic-analysis-of-mcdonald-in-india-business-essay/>

though new entrants are not the major threat, yet expansion of existing local restaurants such as Nirulas (Kulkarni, 2009), are amongst the threats.

## **Substitutes**

Though as discussed earlier, McDonald has its own ways of surviving and growing in the markets including India, yet many substitutes from local and other multinationals are available in form of traditional Indian food including North-Indian and South-Indian, other Asian and Western (Keshwani, 2009). And this can result as a threat for McDonald and these foods can be replaced with MDC Burgers, Beverages, dairy products, and others or with some new foods, low in calories and fats (Onyango et al., 2004).

## **Strength of Suppliers**

As discussed earlier, focus of McDonald on supply chain and its current supply chain structure and its relationship with suppliers of various ingredients of food are the factors which can be believed as strengths for the company (Kulkarni, 2009). Seen this way, company does not seem to have any such challenge from the strength of suppliers.

## **Strength of Buyers**

Relatively strength of buyers is less threatening, but it does not mean that it is not there. Increasing competition and increasing substitute pose a threat for McDonalds. As already stated the presence of Domino, Pizza corner, Pizza hut and local food companies, competition and threat of substitution is increasing (Kulakarni, 2009; Goyal and Singh, 2007). Hence, the strength of the buyer is also on increase.

## **Core Competencies of McDonald's in India**

According to McDonald (2009), four pillars or core competencies of the company are given above. These include fresh food, affordable prices, fast service and limited menu. These four areas which are believed by McDonald (2009) as their four pillars in India are core competencies of the company with the exception of limited menu. Fresh food provision because of unique cold chain of the company is amongst the core competencies (Kulkarni, 2009). Similarly, as discussed earlier, various price offers suitable to various segments of the target market are also believed that pricing of McDonald have significant positive impact in its current position in India (Kulkarni, 2009; Jauhari, 2003). Fast service also is one of the core competencies of the company if this is the case of the customer service inside the outlets and customer support and ordering service in collaboration with vCustomers corporation. However as stated in weaknesses part of SWOT analysis, home delivery to the customers is not that efficient. Hence, in this case, it is not the core competency. If the company really wants to work on this area to overcome these delays, it can become its core competency. Similar, doubts can arise by claiming limited menu as a pillar because with this limited menu, meeting the requirement of the diverse market seems difficult and when competition from the rivals is enhancing and when customers eating habits are different than the previous markets of the company.

## **Recommendations**

Given the information from SWOT analysis, Porter's five forces analysis and discussion on core competencies, a few recommendations are given below to

help management understand current issues and the issues in future, eventually helping the management designing their strategies accordingly.

### **Improved Product Home Delivery**

This is one of the areas of urgent focus because unavailability and delay in products can negatively impact the sales and market share of the company.

### **Expansion and Variety**

As Indian market is a big and growing market and McDonald (Sharma, 2005) has its brand name, it should expand business and open many outlets in the areas which are still not served by the company. This will help to serve more areas and availability of outlets can help in reducing the delivery time as well. Similarly, keeping in view the population and diversity in population in terms of religion, income etc, it is suggested to add more variety to the menu in order to hit more market segments.

### **Global Warming**

More focus on the products, packaging, and other activities which do not harm the environment is needed.