Mcdonalds india swot analysis

This report attempts to identify the critical factors of a given organisation, evaluate the possible organisational strategic choices, critically assess the impact they have on organisation and finally recommend an appropriate strategy that will meet stakeholder expectations.

This report analyses the critical factors and major issues that are faced by McDonalds-India Corporation based on the environmental scanning done in CW1. Further, appropriate strategic options for these issues are been developed and critically assessed, where a final recommendation has been given based on their ability to satisfy its stakeholders.

The development of alternative strategies incorporate business level, corporate level and international level strategies, and these are supported by number of theoretical models which are shown in the Appendices.

INTRODUCTION

2. 1 McDONALDS- INDIA

McDonalds Corporation is the largest fast food chain in the world which is based in New York. It entered in to the Indian market in 1996 by opening its first outlet in New Delhi.

McDonalds India is a fully owned subsidiary of McDonalds USA and it is formed as two 50: 50 joint ventures between “ Co naught Plaza restaurants” and “ Hard castle restaurants”. The former caters for the north Indian market where the later caters the western market in India.

It has a network of 270 restaurants in India and currently there are more than 10000 employees.

2. 2 SWOT Analysis

This is the starting point of any strategic formulation process, which is used to analyse a firm's internal & external environment. McDonalds-India's internal environment consists of strengths & weaknesses, whereas the external environment consists of opportunities & threats.

Strengths & weaknesses exist within the organisation as these are the controllable activities of an organisation that are performed especially well or poor.

Opportunities & threats are largely beyond the control of McDonalds, which can be basically defined as the PESTEL factors that could significantly benefit or harm the organisation in future.

McDonalds- India's environmental analysis done in the assignment CW1 and the critical factors are been summarised in the form of SWOT matrix and is shown in Appendix-01.

Based on the SWOT matrix, the following main issues have been identified based on the potential impact each could have on McDonalds-India combined with their urgency.

Decline in quality standards of the products due to lower prices charged and increasing criticisms against unhealthy foods and obesity

Reputational damage by adverse press releases against unhealthy foods

Need for new product innovation with different varieties

Fast food industry becoming increasingly price competitive and saturated.

Increasing laws and regulations on consumer protection and employee rights

Exposure to changes in the global economy such as economic downturns, currency fluctuations, tax implications and political instability

Strong religious and cultural impact on the business

Need to exploit the global market through market expansion especially in Europe, Asia and Latin America

DEVELOPMENT OF STRATEGIC CHOICES

Based on the main issues, we can develop number of possible alternative strategic choices for McDonalds's in the area of business level, corporate level and international level strategies by matching its external opportunities and threats with its internal strengths and weaknesses

BUSINESS LEVEL (COMPETITIVE STRATEGIES)

Adopt differentiation strategy (Increase focus on differentiation and perceived value)

In order to achieve competitive advantage, McDonalds can increase the perceived added value of its products in terms of superior quality and more unique features than other fast food competitors by charging a premium for its perceived added value. This could be used as a tool to eliminate the quality defects in the food delivered by McDonalds which currently has raised criticisms among the public and legal institutions.

CORPORATE LEVEL STRATEGIES

Acquisition of competitors

The fast food industry is now facing huge level of competition both in local and international level. However, McDonalds is the market leader in terms of sales both in Indian and global context. But, still there is uncertainty in retaining the market leader position because of the rapidly increasing number of competition in the fast food industry. Hence acquiring one of the leading competitors such as Burger King which is only having the half of the market size of McDonalds in the local Indian market would create a long term competitive edge for McDonalds in the local market.

Diversification

The fast food industry is becoming saturated, where the market is facing with increased adverse concerns on the consumption of fast foods and its health implications. Therefore, in order to diversify the market risk McDonalds which is now wholly into the fast food business could depart from its present product line and could concentrate on other related and unrelated products and businesses too.

INTERNATIONAL STRATEGIES

Market Expansion

As a market expansion strategy of McDonalds, it can expand its operations into other countries such as Europe, Asia and Latin America with newly developed products, where they could implement their product adaptation strategy based on the cultural and religious value that are prevailing in those individual countries.

EVALUATION OF STRATEGIC CHOICES

Adopt differentiation strategy (Increase focus on differentiation and perceived value)

In the current context, McDonalds is providing unique and superior value to its customers in terms of its highly differentiated and customised products given at lower cost along with special features and its superior service. However, it has failed to deliver superior quality on its output which is considered as the hard core of a company in the food industry. This is identified as one of the major weakness of McDonalds, and has lead to increased criticisms from the public and legal institutions.

With reference to the Bowman's clock strategy (appendix-02), currently it follows the hybrid strategy (differentiation with lower cost) where it could now move into the differentiation strategy. McDonalds could increase its focus on moving to differentiation and delivering high perceived value to while increasing the prices. This could be delivered in terms of producing more healthy foods with low oil and calories. This can be done through investing highly on R& D to find the alternative ways of delivering superior quality while retaining the taste and deliciousness of its recipes.

The increased R& D cost and value addition may require McDonalds to charge an additional premium price to their recipe. This may not affect the sales, because the customers are less price sensitive because of the strong brand image

Advantages

-Delivering healthy foods with lower calories will attract more customers who are not into fast food consumption due to health concerns

-Increased customer satisfaction and brand reputation

-Increase sales and profitability

-Increased shareholder value maximisation

-Support from the local government and resulting tax and other concessions

Disadvantages

-The average income or lower income earners may switch to other local food boutiques because of the increased prices

-Increased cost &lower profits

-Competitors may imitate similar differentiations

-Bases for differentiation become less important to buyers

Acquisition of competitors

McDonalds rivals such as Burger King, KFC, Pizza Hut, Domino's are operating in India as well other countries, of which Burger king is the major rival in India. As a long term competitive strategy of retaining the market leader position, McDonalds can acquire this business and could achieve a long term competitive edge in the Indian fast food industry.

This will enable McDonalds to become a giant in the fast food market through attracting a wide base of customers from Burger King. It can also enjoy the synergy affects by using Burger king's skills, competences, technology, knowledgeable and talented work force.

All this will increase the growth and profitability of the business ultimately leading to increase in shareholder wealth maximisation.

However there can be barriers such as,

-Defence against the takeover

-Financial & legal constraints

-It may result in negative synergy when there is mismatch between values and core competences.

Diversification

The fast food industry in India is very competitive, because there are many small businesses operating in abundance and other top brands also. All these firms ultimately want to get hold of the customer base. In order to gain competitive edge in the market, McDonalds offers a range of diversified products related to their main fast food business in India, which comes under the strategy of related product diversification.

They currently offer many more related diversified products including Mc Cafe, Mc Breakfast, Lunch, dinner etc.

However, these related diversified strategies cannot be used to minimise the market risk that McDonalds is currently facing with the increased competition in the fast food industry. Hence, it could concentrate on the lateral diversification.

They could diversify into a totally new business such as a hotel. This is demonstrated in the appendix-03 using ‘ Ansoff’s Model’. This will benefit the McDonalds as follows,

-Since the fast food business and the hotel business are managed independently, the fall in one market will not influence the other market.

– Since the firm will not depend on a single market, it provides better risk control and diversify the market risk that arise from industry downturns, competition, etc

However it may also bring some adverse consequences such as,

-Damage to the high brand recognition and brand equity of McDonalds

-Loss of focus and slow growth of the main business

Expansion in to new markets

The parent company McDonalds is currently having its franchised business in more than 120 countries all around the world.

Currently, majority of competitors of McDonalds-India are almost having their global presence in all over those countries. In order to retain the market leader position it is vital for McDonalds to expand into more new markets.

This can be analysed using Johnson, Scholes and Whittington’s framework of suitability, feasibility and acceptability analysis

Suitability: This would open up a completely new market for McDonald’s through increasing its market size. This will also spread the Mc brand image across the globe while strengthening its brand recognition and brand equity among its existing customers.

Feasibility: There would be no financial feasibility problems with this investment, because McDonalds is a fast growing entity and have huge number of investors all over the world. Also there are many big businesses that are waiting to join with McDonald as joint venture.

However, entering in to a new market would need a high level of Research & development in terms of the customer needs, values, etc. McDonald needs to be much aware of the cultural and religious aspects, political and legal aspects that are prevailing in those countries.

Acceptability: In terms of acceptability this market expansion would satisfy the needs of the potential customers of McDonalds who are one of the most important stakeholders of McDonalds.

McDonald's shareholders and other investors would find this acceptable as it would generate higher levels of sales and operating profit which leads to increased shareholder value maximisation

RECOMMENDATION

5. 1 Recommended Strategy

According to the analysis, it is recommended that McDonalds-India does adopt the differentiation strategy and focus on increasing the perceived value for their products, while charging a premium price because it will help McDonalad to sustain the market leader position and their brand image.

5. 2 Justification

Throughout the analysis, it is found that the major ongoing issue in McDonald as well as in the Indian fast food market is the increasing concerns about the unhealthy foods containing more oil and calories and the rising obesity, which has become a major ethical issue. India is having the world's 2nd highest population, for the recent past, the rate of early deaths caused by heart attacks and illnesses such as cholesterol among youngsters are increasing in a rapid manner. As a result, consumer awareness has increased and most of them seek healthy & fresh foods with low calories. So if McDonalds ignore this aspect and continues to cater unhealthy foods, there is more possibility that it would gain criticisms from the media and pressure groups and it could be banned by the legal and consumer protection institutions.

When comparing with others, this issue need to be addresses immediately as possible, because any delay in addressing this issue may ruin the entire business, and will also bring a negative impact on the global brand image as well.

Hence the need to increase the customer perceived value through adding unique features with superior quality and competing based on perceived value is more serious for the sustainability of McDonalds in Indian market and require the immediate management action of the board.

As explained in the analysis part, the increased focus on perceived value mainly through superior quality will enhance the brand image of McDonald and will attract more customers. This will bring more sales and profitability, which ultimately lead to increased shareholder value.

5. 3 Actions to be taken

-Add more healthy items in to the value menu. Foods such as fruit and maple oat meal are very famous among customers in USA, where these need to be added in the Indian menu too

-Focus on changing its existing products to discourage unhealthy eating habits

-Come up with better names for the healthy dishes to encourage customers to eat them

-Charge higher price for the products to increase perceived value

-Getting the products endorsed by a famous celebrity

-Marketing by giving people the impression that the firm is solving some major problems using success stories &testimonials

-Explain behind the scenes value of the people and processes

-Invest more on R& D to innovate new ways of producing healthy foods

-Set targets and agree on the acceptable oil & calorie usage in each dish in the menu throughout all the outlets in India and evaluate on a continual basis

-Establishment of " League tables" of oil & calorie usage by each outlet should be introduced and linked to monthly awards for achievements

-Increase CSR activities to show McDonalds commitment towards the wellness of the public

-Use of technology to introduce new features &increase variety for vegetarians

-Improved customer service

CONCLUSION

Based on the analysis of internal and external environmental factors in CW1, this report has identified the main issues faced by McDonalds-India, proposed and evaluated appropriate strategic choices, and has offered appropriate recommendation.

APPENDICES