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External Analysis about McDonald

McDonald operates in the food service industry. The industry deals with selling ready to eat foods. Most of the companies in this industry have op-ted to increase their profits through expansion policies, which they do by having a supply chain of shops. In the case of McDonald, this is done through franchise where individuals own and operate independently from the main office of the company. The industry is fast growing, as more and more people get busy at their work place that little time is left for them to go and prepare meals. Again, in the area of its operation, a cutthroat competition has emerged as even hotels hunt for customers.

In the view of Porter’s Five Forces Model, it is easy to evaluate whether the industry is attractive to prospective investors. First is the threat of competitors, and according to Porter, in industries where profitability is high, more and more investors will be attracted to invest in that industry. However, if the number of investors keeps on rising this profitability will also become smaller and smaller as the market tries to balance itself. Back to the Food service, it is clear that the industry is a profitable one as it has attracted various competitors who includes; Subway, Wendy’s/Arby’s, Starbucks, YUM Foods and Burger King Corporation. The entries of these indicate the level of profitability in the industry. In 2007, McDonald had a profit of about $ 2. 395 billion. However, despite this being a lower value from 2006 figures, the industry is actually profitable.

Second, there is the influence of the supplier. With the ability to bargain for better prices for their products, suppliers ends up charging high prices especially in occasions when they feel there is no substitute to their products. This definitely gets to impact negatively on the firm. For instance when farmers feel that they are getting low returns for their labor they may refuse to sell. Such conflicts between all the direct or indirect stakeholders have forced McDonald to develop a code of ethics that sought to maintain equality among all the stakeholders.

Next is rivalry in the market. In most industries, rivalry in competition is a determinant to competition that exists in that particular industry. McDonald has developed many brands and more so established itself as a brand itself. Even their packaging has been one that largely attacks consumers. This is in addition that the place advertisements in their shops that seemingly attract children to their products.

For example, an observation made by Packard Children's Hospital's Center indicated that most children choose food packed in McDonalds packets as compared to that which was not packed despite being same food. However, McDonald has as well not gone without a blow, as it is not able to beat the rival pizza, which seems to be gaining momentum in its growth. Rivalries show the existence of high competition in the industry and thus it may be proofing unattractive to prospective investors who may want to come in.

Bargaining power of customers is the next of Porters Five Forces of Model. It is also known as the market of outputs. It constantly holds the firm into pressure demanding reduction of prices. At some point, McDonald raised their prices higher that it did not even match that of the competitors such as Chipotle and Panera. This resulted to a loss in their sales during that period.

Where such things happen, it is clear that competition is very high, and no one firm can claim a monopoly in the market. That indicates that the market could be attractive to investors as one is free to make the number of customer that they would possibly best make.

Finally, there is a threat to substitute of services or goods. When Pizza came into the Food Service industry, it threatened the continued dominance of McDonald. McDonald reiterated by trying to bring substitute products, but was not able to adequately outdo Pizza. In an industry where there are prospects of entering a new market with substitutes, a new firm could do extremely well. With the entrance of Pizza, it was clear that the industry remained attractive to investors or entrepreneurs.

In the recent years, McDonald, though boasting of being the largest food retail shop in the world, is facing real treats to it operations. The company’s main competitors include; Subway, Wendy’s/Arby’s, Starbucks, YUM Foods and Burger King Corporation. This situation is a result of various factors as well as considerations that are largely influencing both the operation of the firm and the whole food service industry.

The first consideration is how to devise a plan to win formula, this plan to win formula is dependent on various factors ranging from price, place, product, people, and promotion. It is this among other factors that have hard hit the Informal Eating Out a segment of the company, although publicity, demographics, as well as consumer preference has largely contributed to holding the company at the top position.

Secondly, McDonald’s results as well as their financial conditions are influenced by both local and global market environment that is in existence. Thirdly, the growing complexity in relation to regulatory as well as the legal framework has an impact on both results and the operations of the company in a very objective manner. Another consideration is the unpredictable trading trends as well as the effects on the common stock. In this case, there are various factors that could influence and they include; adverse global economy and extremely volatile market among others.

McDonald’s archrivals intend to bring new substitutes to the market to capture consumers who may feel that they are not satisfied with what McDonald is offering them. Secondly, they want to make expansions to areas where McDonald is not well established in an aim to create their own batch of consumers. With the current evaluation of the market, it is possible that competition is likely to increase even more as firms seek control of the market.

Works Cited

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