

Pest analysis of mcdonalds in malaysia



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PEST stands for – Political, Economic, Sociological, and Technological. PEST analysis is an effective tool to audit company's environmental influences which can be used for strategic decision-making. The PEST analysis is a very useful tool to understand and analyze market growth, market position, future potentials and direction for a particular business so A PEST analysis can be termed as a business measurement tool. PEST analysis summarizes the external environment in which the business is planning to operate or already operating. However, an effective follow up and proper response plan is required to ensure optimum use of PEST analysis (Luthans & Doh, 2008). This report aims to discuss PEST analysis of McDonalds in Malaysia. The report is divided into five parts. First part is introduction where the basic theory and application of PEST analysis is discussed. The next part is detail explanation of four components namely Political, Economic, Sociological, and Technological of PEST analysis. The third part of this report highlights PEST analysis for McDonalds in Malaysia. The final part of this report discusses conclusion and summary analysis.

2. 0 Background of the Company:

2. 1 Introduction:

McDonald's is a popular brand name in fast food industry. McDonald has 34,000 restaurants in 119 countries serving roughly 69 million people every day. Worldwide around 80% of McDonald's restaurants are franchised and generally owned and operated by independent local entrepreneurs (McDonald's, 2013). McDonald's annual report 2012 shows that worldwide the company generated operating income of 8.5 billion in 2011 with 9.7% growth over 2010 (McDonald's Corporation, 2012). McDonalds Malaysia

opened its first store in 1982 in Kuala Lumpur. According to the figure of 2009, McDonald's Malaysia manages 194 restaurants nationwide catering the need of 10 million customers monthly. McDonald's Malaysia is growing significantly with 15-20 restaurants per annum. In order to manage day to day operations McDonalds Malaysia has around 8, 000 local employees who are working in different outlets and near about 150 personnel are working in the headquarter (McDonald's Malaysia, 2009).

2. 2 Company History:

Ray Kroc the founder of McDonald's corporation started his business with Richard and Maurice McDonald by buying franchising right in 1950s to operate McDonald's restaurants in the USA. In 1961, he bought complete shares of the company from the McDonald brothers. In the last quarter of 1980, Golden Arches Restaurants Sdn. Berhad. (GARSB) received permission to bring McDonald's in Malaysia. The first McDonald's opened on 29 April 1982 at Bukit Bintang, (McDonald's Malaysia, 2009).

2. 3 Products are Services:

McDonalds offer wide variety of fast food and beverages including burger, nugget, chicken fries, French fries, set meals etc. Moreover the restaurant serves different type of coffee, carbonated beverages, ice creams and flavored drinks (McDonald's Malaysia, 2013). McDonald's continuously does research and update its menu to keep the market share. Cost leadership and price differentiation is McDonald's one of the key marketing strategies (McDonald's Corporation, 2008).

3. 0 Introduction to PEST analysis:

It is mentioned earlier that PEST stands for Political, Economic, Social, and Technological. This tool is used to evaluate the market for both new entrants and existing business units. This analysis tools are a framework for assessing a situation. It can be applied to evaluate a position or a strategy, company direction, new marketing proposition or even a new idea. Thorough analysis of the environment in which the firm functions empowers a company to take advantages of opportunities as well as minimize the threats. PEST framework often encourages proactive thinking and brainstorming rather than relying on instinct (Luthans & Doh, 2008).

3. 1 Political:

Political factors often refers government intervention, entry barriers, tax or tariff structures which are designed to benefit Government or the citizen. The political environment has huge influence on the business. Political stability, regulations, spending power of consumers often shapes the profitability of a business (Oxbridge Graduates, 2013). There are certain factors which influence political situation of a country which includes ecological or environmental issues, current legislation home market, future legislation, international legislation, regulatory bodies and processes, government policies, government term and change, trading policies, funding, grants and initiatives, home market lobbying/pressure groups, international pressure groups, wars and conflicts (businessballs. com, 2010).

3. 2 Economic:

Economic factors comprise many factors e. g. stability, income status, income parity, purchasing powers, unemployment rates, exchange rate,
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interest rates etc. there is no doubt that these factors plays a vital role in decision making for an industry or a business (Oxbridge Graduates, 2013). It is necessary to consider certain factors while analysis economic situation of a country, for example, home economy situation, home economy trends, overseas economies and trends, general taxation issues, taxation specific to product or services, seasonality and weather issues, market and trade cycles, specific industry factors, market routes and distribution trends, customer or end-user drivers, interest and exchange rates, international trade and monetary issues (www. businessballs. com, 2010).

3. 3 Socio-Cultural:

Socio- cultural factors refer to the pattern and trend of demand which generally occur due to the nationality, religious or culture. As for food industry it is evident that local taste and preferences will decide the acceptance of particular food products. In order to survive and grow local likings and disliking should be followed. So a thorough understanding about local market is required to ensure successful business (Oxbridge Graduates, 2013). The cultural and social influences on a particular business vary country-wise. When a Socio-Cultural situation is analyzed lifestyle trends, demographics, consumer attitudes and opinions, media views, law changes affecting social factors, brand, company, technology image, consumer buying patterns, fashion and role models, major events and influences, buying access and trends, ethnic or religious factors, advertising and publicity, ethical issues should be considered (www. businessballs. com, 2010).

3. 4 Technology:

Technological factors shape the production output and efficacy of the plant and operation. As for the food industry it is seen that employment of technology brought fruitful results in the food industry (Oxbridge Graduates, 2013). Technology is a critical success factor to achieve and sustain competitive advantages. Moreover, this is a key driving force of globalization. An analyst considers competing technology development, research funding, associated or dependent technologies, replacement technology or solutions, maturity of technology, manufacturing maturity and capacity, information and communications, consumer buying mechanisms or technology, technology legislation, innovation potential, technology access, licensing, patents, intellectual property issues, global communications while evaluating technological situation (www. businessballs. com, 2010).

4. 0 PEST analysis for McDonalds in Malaysia:

4. 1 Political Components:

Malaysia is a multicultural country with three major ethnic groups namely Malay, Chinese and Indian. Moreover, the country has few indigenous groups who live mostly in East Malaysia. Evidently, these groups live in peace without any major clashes (Rex, 1991). Moreover, this country is a popular tourist destination. According to Malaysian Tourism Board in 2012 around 25. 03 million international tourists visited Malaysia and on an average 64, 000 tourists landed in Malaysia everyday which is 7. 2% higher than the inbound tourist in 2011 (MTPB, 2013). The apparent political stability is one of the main attracting factors for foreign as well as local investors. Pro- business government mentality, stable political situation and a good legal system

shows attractive prospects for investors. Moreover, in order to attract large investments, the government offered greater portion of foreign equity ownership in businesses and enterprises under the Promotion of Investment Act (PIA), 1986. Market-oriented economy and an educated multilingual workforce made Malaysia as one of the popular destinations for investment (Tsen, 2005). So, McDonald's has tremendous opportunities in Malaysia and the company can capitalize this harmonious political situation for further expansion.

4. 2 Economy Factors:

The global financial crisis has affected the whole world at the end of 2007 resulting sharp decline in global trade and it also increased the unemployment rate in many countries. The good thing is Malaysia was not affected severely by the recession like its neighboring country Singapore. One reason could be Malaysia learnt its lessons from the previous financial crisis which occurred in 1997. Moreover, McDonald's dealt the problem efficiently by reducing product price and offering value meals. This is how McDonalds managed to maintain sales figures and performed better compared to its competitors. Currently, Malaysian economy is growing at a pace of 4. 5-5% per annum. The rate of Malaysian Ringgit against US Dollar was steady at average 2. 95 (Zheng, 2009). The .

4. 3 Socio- Cultural Factors:

As it was mentioned earlier that Malaysia is a multi- religion and multicultural country. Islam is considered official religion in Malaysia and more than 50% of population is follower of Islam in Malaysia. So naturally the concept of ' Halal' plays important role in Malaysian food industry (Muhammad, Isa, & <https://assignbuster.com/pest-analysis-of-mcdonalds-in-malaysia/>

Kifli, 2009). To respect the religious sentiment of Muslims and to comply government rules McDonalds in Malaysia does not serve any pork item. Moreover, McDonalds follow strict ' Halal' compliances while buying the main ingredients e. g. chicken or meat from suppliers. Beef is one of the popular food items for many Malaysians especially Muslims, that is why data shows that in Malaysia the bestselling McDonald's product is Big Mac (McDonald's Malaysia, 2009). Recent trend shows that the Millennial generation in Malaysia are becoming health concern.

4. 4 Technological factors:

Malaysians are becoming more and more technology oriented. Social networking sites are playing vital role in every aspect of Malaysian people's lives especially the younger generations are heavy users of internet and other IT gadgets (Miniwatts Marketing Group, 2010). McDonald's Malaysia has its own website and also it has strong Facebook and other online social networking presence. It disseminates corporate information as well as various promotions and events through these channels (McDonald's Malaysia, 2013). However, it certainly lacks in some aspects where the other competitors are way ahead. For example, McDonalds did not have internet ordering system until recently. Moreover, the delivery service is inadequate and often does not cover most of Kuala Lumpur let alone other cities (McDonald's Malaysia, 2013). In order to sustain in today's competitive business world McDonald's should design appropriate strategies to response changing need of the customers.

5. 0 Conclusion:

A PEST analysis is an excellent tool to understand the external affecting factors of business. It enables the company to capitalize the opportunities as well as minimize the potential threats. This report has outlined a PEST analysis for McDonald's Malaysia. However, it should be remembered that today's business world is very dynamic, demanding and ever changing so in order to ensure maximum success, the factors should be analyzed and updated on a regular basis (Luthans & Doh, 2008).

5. 1 Summary of the PEST Analysis:

The summary of PEST analysis McDonald's Malaysia is mentioned below:

Political: Despite of being a multi-cultural society, Malaysia enjoys a peaceful environment. Moreover the government is trying to encourage investments in various ways so McDonald's can use this opportunity for further expansion.

Economic: Though Malaysia was not badly affected by 2007 world recession but still McDonald's was prepared and had taken timely measures. The overall economic improvement of Malaysian opens new opportunities for McDonalds.

Socio- Cultural Factors: McDonald's has managed to blend with Malaysian culture nicely and understood local preferences very well, as a result McDonald's is a household name in Malaysia. However, recent health consciousness among Malaysians poses a threat for McDonalds. However, McDonald's can capitalize this change in consumer behavior by offering healthier foods e. g. organic foods, salads etc.

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Technology: McDonald's understands the need of technology applications. It has strong presence in online social medias e. g. Facebook. The communication patterns and preferences are changing, McDonalds should respond to these changes by innovation.