Strategic analysis (swot, pestel, five forces) of mcdonalds

Business, Company

1. 0 Introduction

1. 1 Introduction

The term restaurant is an establishment wherefoodis prepared and served to the people and always/almost refers to any sort of dine-in. Restaurants range from simple dining places where food is catered to people nearby or tourists for a reasonable price to expensive eat-outs serving food and wine in formal outfits depending on the localcultureand tradition. Restaurants are classified based upon the range of menu, pricing and the mode of preparation. The changing trends in economy and income changed the purchasing power. The change in purchasing power also reflected in the market preferences and consumer behaviour. The industry has started becoming customer centric. This lead to the change of historic serving method (food served to the table by a waiter) to evolve into of fast-food and take away restaurants. There is quite a lot of difference between different types of restaurant. Acoffee shopserving breakfast and lunch is completely different from thefast foodindustry (Rainsford, 2001, P. 208)Fast food restaurants ranges from small road side vendors to American giants like McDonald's and KFC (Caterersearch, 2011). But they have one thing in common. They deliver their service to the customers very quickly when compared to typical restaurants.

1. 2 Organisation Selection

Thecase studyis to develop an organisation as the restaurant of the future (2025) and to predict the possible challenges and opportunities in achieving it. The study has also tried to suggest methods to overcome the odds and

capitalise on the possible strengths. What began with a handful of hot dog and hamburger has spread its influence into every aspect of the society as an industry (Schlosser, 2001, p. 3). This case study has considered McDonald's possibility of becoming a restaurant of the future. Patrick McDonald in 1937 opened a restaurant " The Airdrome" selling hamburgers and juices. Later in 1940 Maurice and Richard, sons of Patrick McDonald opened a speed Service system and named the restaurant as " McDonald's". There are now more than 31000 restaurants in over 119 countries and revenue of US$ 24 billion (McDonalds, 2011 & Securities and Exchange Commission, 2011). McDonald's is the biggest chain of restaurants in the world serving nearly fifty million customers per day (McDonalds, 2011).

1. 3 Organisation position

Different organisations are influenced by different factors, but in common they are influenced by political, economic, social, technological, environmental and legal factors. The response to these factors is determined by the organisation`s strengths, weakness, and managerial efficiency. McDonald's, being a food industry, dominates the market till today with its diversification. McDonald's marketleadershipcan be attributed mainly to its growth in the recent years. The growth was steady despite global economic crisis. The improvement in the buying pattern of the people is a result of the overall increase in the income and the standard of living of the middle class. People have started to find ways to increase their income to rather than curb their comforts. UNESCO has predicted a substantial amount of increase in

the consuming class. These facts make the organisation look very positive in future (UNESCO, 2011).

1. 3. 1 SWOT Analysis

Strengths:

Innovation and diversification in product range.

Extensive geographical and demographical presence.

Management and franchise network`s support and adoptability to the dynamic market

Not being complacent and its attitude of uncertainty acceptance

Weakness:

Customer behaviour and expectation differs vastly among different cultures and boundaries.

Opportunities:

Increase in the number of applications for franchising. This goodwill of the organisation is a great asset in the long run.

Increase in demand for the service oriented sector with increase in population of the consuming class.

Its commitment to providehealthconscious diet has attracted customers across the globe.

Innovation in the product range keeps on accumulating the customer base.

Threats:

Legal threats including law suits against the restaurant against their advertising, meals, obesitycaused by their food, fries, employment etc.

Campaign against McDonalds by independent organisations like Mcspotlight

posing a real risk to its marketing strategy (Mcspotlight, 2011).

McDonald's have problems with fluctuations in operating and net profits which ultimately impact investor relations. Operating profit was $3, 984 million (2005) $4, 433 million (2006) and $3, 879 million (2007). Net profits were $2, 602 million (2005), $3, 544 million (2006) and $2, 395 million (2007) (Marketingteacher, 2011).

Opposition from parent group for attracting the kids by providing toys/gifts etc., thereby soliciting them to the unhealthy fast food culture at an early age.

Food contamination will lead to an epidemic as the raw food is always handled in mass and distributed to every part of the country by centralised distribution centre.

Competition from major food chains like Burger King, KFC and mid-range local restaurants which sell similar products at much less price than McDonalds.

1. 3. 2 External/Internal Factors.
1. 3. 2. 1 External factors (analysed using key PESTEL factors)

PESTEL analysis helps us to understand the overall picture of the operation of an industry.

A. Political Factors

The operations of any organisation are heavily influenced by the individual state policies enforced by each government and McDonald's is no exception. For instance, there are certain groups in Europe and the United States that protest to the state pertaining to the health implications of consuming fast

food. They claim that harmful elements like cholesterol and adverse effects

like obesity are attributable to consuming fast food. There are other factors

such as the tax law, employment law and related trade restrictions. Tax

rates could affect the growth of the organisation. In a diverse

workingenvironmentemployment restrictions like working hour's regulation

require the organisation to employ more staff. Amendments like this

increase the overall cost involved. Certain restriction has very strong

influence in the operation of the organisation. Certain laws penetrate so

deep that they even constrain the content of the food.

Economic Factors

Organisations like McDonalds which have global presence are affected by the

changes in inflation and the exchange rates. Hence, these chains may have

to adapt to the issues and the effects of the economic environment. The

economic factors also determine the supply and demand relationship of the

raw materials within the organisation. Other economic factors that impact

the organisation are inflation rate, wage rate, and cost of living (Ivythesis,

2011).

B. Socio-Cultural Factors

International strategies of McDonald's seem to act on several fields to

guarantee lucrative returns for the organisation. To illustrate, the

organisation improves on establishing a positive mind-set from their core

consumers. McDonald's have understood its customers based on their

characteristics. A recent survey has proved that McDonald's most frequent

customers are below the age of thirty-five (Ivythesis, 2011).

C. Technological Factors

The Company's key tool for marketing is by means of television advertisements. Elements like the inventory system and the management of the value chain of the company allows for easy payments for theirs. The integration oftechnologyin the operations of McDonalds tends to add value to their products. The improvement of the inventory system as well as its supply chain allows the company to operate in an international context (Ivythesis, 2011).

D. Environment

The socialresponsibilityof McDonald's on a region is influenced by the operations of the company in that specific region. These entail accusations of environmental damage. Among the reasons why the company is charged with such claims is the employment of non-biodegradable substances for the glasses and Styrofoam coffers, which is offered for the meals (Ivythesis, 2011)

E. Legal Factors

Legal aspects like tax obligations, employment standards, and quality requirements are only a few among the other equally important legal factors on which the company has to take into consideration (Ivythesis, 2011).

1. 3. 2. 2 Internal Factors

McDonald's constantly deals with very active and rigorous competition. Statistics and results show that there is always the threat of new competitor. One of the internal strength that McDonald's has had in the past is its early

entry into the international market. Due to the fact that it was among the first to enter the international market, it was readily able to analyse what the requirements of the industry and capitalised on its strength. The key reasons for the success of McDonald's are

A. Quality of Service:

McDonalds was very committed towards achieving customer satisfaction. It consistently looked to improve its product range. Few of those developments include taking orders in the drive-thru' with hand held PDA's, by which not only the speed of the service was improved but also the quality of service was improved. The idle time of the customer was reduced.

B. Quality of product:

Another important area within the customer service and customer satisfaction is the quality of product. It is a very well-known fact, that for the success of a food industry, the key area is the quality. McDonald's lead in the market share for such a very long period of time demonstrates its quality.

C. Internal management:

Internal management is a key area in the organisation and is mainly controlled by IT systems. IT systems developments are colossal, in every named field. Their developments within this environment are in the following sectors Reports, Base, Forecast and Setup.

New Product / Process innovation

Innovations of the mangers are the assets of the companies in the present scenario. Innovation enables one to see potential acquisitions through

different perspectives. Apart from producing monetary gains, innovation provides a greater scope for the organisation to deal with. Innovation also provides an edge in being able to enter new markets faster and deeper. Innovation serves as a fuel for the companies to accelerate (Maglio, 2006).

There are various factors which influence the position of a restaurant, as we discussed earlier all these factors could experience change by 2025. It is impossible to predict the outcome or the progress of an industry accurately. Most restaurants adapt to the changing scenario rather than pre-empting on the change and acting proactively. The company that builds a culture of innovation and is able to evolve with change is on the path to growth. The company that fails to innovate is on the road to obsolescence (Kandampully, 2000).

McDonalds is experiencing fierce competition from the developing Asian and Indian economy. The ways to withstand these threats are also discussed.

McDonald's is going " back to the future." The burger giant is investing $2. 4 billion in renovating 2, 000 of their locations, including 400 in the U. S., and building 1, 000 new restaurants in the style of the renovations that they are doing (Franchises, 2011). Based on the location of the restaurant the designs vary. There are three major styles into consideration which is the urban living, young and cheering and the fresh and vibrant (Jaunted, 2011).

Environmental concerns over waste management have forced McDonald's to switch to biodegradable packaging as well as to reduce the company's greenhouse-gas emissions. The next 10 years will see a culture of adapting

to more recyclable material used in packaging, for serving, and separate receptacle bins for cups, plastic lids and leftover food (Minyanville, 2011).

As re-organizing a complete restaurant for 2025 specification is the scope of this assignment, few specific areas of development are selected. Facility Design and equipment are discussed in detail in this study. New innovative ideas and a road map to implement those ideas were also discussed.

The key task is to analyse the customer expectations, innovations and apply creativity to the thought by developing a model of a restaurant for 2025.

The population of the United Kingdom is projected to increase gradually from an estimated 59. 8 million in 2000 to reach nearly 65 million by 2025, according to national statistics published by the government (Gad, 2011).

2. 1 Facility Design and equipment:

2. 1. 1 Restaurant Design: Innovative design to suit 2025 requirements

Restaurant design plays a critical role in attracting and retaining customers. At the same time, design must complement food preparation and service. Successful restaurant design shows how to incorporate your understanding of the restaurant's front- and back-of-the-house operations into a design that meets the needs of the restaurant's owners, staff, and clientele. Moreover, it shows how an understanding of the restaurant's concept, market, and menu enables one to create a design that not only facilitates a seamless operation but also enhances the dining experience (Baraban, 2010, p. 80-89).

Successful restaurant design should be based on a complete feasibility study that covers the following ten areas (Baraban, 2010, p. 95).

Type of restaurant

The Market

Concept Development

Menu

Style of Service

Speed of service

The per customer-Check average

General ambience

Managementphilosophy

Budget

These points should be considered at start of a project, before arriving at layouts and specifications.

Type of restaurant:

The restaurant (McDonalds) is a fast food restaurant that needs to aid both take away and eat-in customers. In 2025 it is expected that the market will be expecting something really quick and fast food is one of the options to move forward.

The Market:

A good market analysis looks at main four components: potential customers, competition, location and economic environment. These factors have been discussed earlier.

Concept Development:

The assumption in this study is that by 2025, the population will rise by 6 million and in order to meet the demand, the organisation needs more space, quick service and value added service Menu:

The food and menu are beyond the scope of this study and hence not discussed

Style of service:

Style of service in this design is considered to be carried over from the current style.

Speed of service:

It is for sure that the customer's expectation will be rocketing over the next decade and the speed of service will have to be improved. The equipments that are suggested in the next section are assumed to meet the service speed target.

Per customer check Average:

The nature of business implies the per customer check average is not going to be more than ? 50 and this suggests that the restaurant will have to make

huge customer turn around to become successful. This is based on the inflation rate in 2025.

General Ambience:

The atmospheres that future managers are throwing into this design set up is eat-in and go type. As this will be apt solution for a fast food industry.

Management Philosophy:

Management is designed to be a central command centre, rather than having manager in each restaurant. This is to save cost and have a unified command centre with unique target. Each store is to be connected to the central command centre through which the person/Computer in command could see the status of the shop floor activities. A computer constantly monitors the sales, stock and cooking time and the command is provided to the shop floor where the robots are tasked to do the required amendments (Kandampully, 2000).

Budget:

The assumption is that the design would be implemented as a pilot project and there is sufficient budget to setup a whole new restaurant based on the requirements for 2025.

Completed restaurant design:

The design of the restaurant is assumed to be completed with the above assumptions, requirements and is available for implementation. The next task is to analyse and implement the newly designed restaurant.

2. 1. 2 Equipment: Introduction of Technology and Robot

As we may be aware with the increasing population across the globe, the future of McDonalds could be a robot making a ham burger reducing manpower and increasing speed of service (Myownspunk, 2011). It's a well-known fact that technology is the future. The use of electronic gadgets or robots to operate manual devices such as in the automotive industry or for manual handling of raw materials using robots will be a common trend for that generation of 2025; the use of robots in the food industry will be a common trend in future. Creativity could be a solution to complex problems, the future could be robots taking orders; preparing and serving food in the most efficient manner possible.

Figure. 1 Cost estimate of installing a Robot in a fast food industry (McGrath, 2004, p. 228).

Certainly man power will be reduced with the innovation idea of robots doing these tasks. The product cost for robot is expected to be $34, 215 for the first year and reducing in the subsequent years (McGrath, 2004, p. 228) Considering the levels ofeducationthe future generations are going to embark on, retail low skills in-proficient job like preparing food and taking orders by the generation is not going to be desirable. The innovation of robots into this market could also increase the speed of service as fast food restaurants are well renowned for its speed of service. No matter the laws for

an industry may vary from country to country but when it counts to food hygiene the laws across the globe are similar and not only the government, even the public will be very much concerned about the hygiene. To an extent one can be certain that these hygiene laws are easily met by the implementation of technology (Maglio, 2006).

Implementation

The innovator will be the leader in the future. The innovator need not necessarily be a technical genius, but he must be able plant the attitude of innovation and nurture it. Collaboration is essential; failureis an unwelcome but inevitable outcome. Innovation leaders are comfortable with uncertainty and have an open mind; they are receptive to ideas from very different disciplines. They have organized innovation into a disciplined process that is cyclic and systematic. And, they will have the tools and skills to pinpoint and manage the risks inherent in innovation. Not everyone has these attributes. But companies cannot build a culture of innovation without cultivating people who do (Gadrey, 1995).

When restaurateurs evaluate whether to adopt technology-based service innovations, they must consider not only the costs and benefits of that technology, but also the customers' reactions to the procedural changes withrespectto the innovation. Technology that fails to build customer satisfaction may not be worthwhile, no matter how much it reduces labour costs (Gann, 1998).

In order to implement the above facility design and equipment change, John Kotter's highly regarded book ' Leading Change' (1995) was referred and a helpful model for understanding and managing change was used.

John Kotter's eight steps have been applied to McDonald's implementation program as below:

(1) Create Urgency

According to John Kotter 1995, 75% of a company's senior management needs to support the change.

In this case, a proposal is to arrange for a team meeting and present the change management plan and make sure that every team member is aware of the new facility design and the (technology of) robot they are going to work with.

This can involve a complete SWOT analysis, scenario planning and full deployment of all the strategic planning tools. Results of analysis and early conclusions should be thoroughly tested with informed third party opinion and a wide cross section of all stakeholders (Johnkotter, 2011).

(2) Form a guidingcoalition

After all the team members are aware of the changes, its time to form a team to instigate the implementation process. Building the momentum for change requires a strong leadership and visible support from key people within the organisation. The coalition will involve a wide representation of

the formal and informal power-base within the organisation (Johnkotter, 2011).

By working as a team, the coalition helps to create more momentum and build the sense of urgency in relation to the need for change (Johnkotter, 2011).

(3) Develop a vision and strategy

A drive for change without a clear focus will rapidly fizzle out unless one develops a clear vision of the future that is accompanied with a clear description about how things will be different in the future (Johnkotter, 2011).

The vision for this project is

a) implement the new facility design

b) introduce robot & technology to make and distribute burgers

Strategy is to have the implementation completed in set time and understand the root cause of any issues in this pilot programme so that future application of similar concepts could be done with ease.

(4) Communicating the vision

It is equally important to communicate the vision to the individuals who are involved in the implementation of the McDonalds new vision.

This goes beyond the " special announcement" meetings and involves frequent and informal face-to-face contact with the people – by the manager and by all individual members of the coalition (Kotter, 1995, p. 110).

There will be long list of items that has to be passed between the team which include schedules, training material, new procedures etc. The manager of the future will be responsible forcommunicationand should make sure that the changes are received by every individual in the organisation.

(5) Enabling action and removal of obstacles

This is the stage where the change initiative moves beyond the planning and the talking and into practical action as you put supportive structures in place and empower and encourage your people to take risks in pursuit of the vision (Johnkotter, 2011).

Regular meetings in which the reports are reviewed will provide better means to identify and remove obstacles and inhibitors to change. These may arise in processes or structures that are getting in the way. This may also involve addressing resistant individuals and/or groups and helping them to reorient themselves to the requirements of the new realities (Johnkotter, 2011).

(6) Generating short-term wins

This is important as a counter to critics and negative influencers who may otherwise impede the progress of the implementation initiative (Kotter, 1995, p. 85-90). In this implementation program the short termgoalscould be

easily identified. It is also important to recognise and reward all those people who make these early gains possible (Kotter, 1995, p. 43-47).

Every week a team member will be selected based on their performance and rewarded. This will motivate them and result in more productivity as team members will compete to gain that honour.

(7) Hold the gains and build on change

Kotter argues that many change initiatives fail because victory is declared too early. An early win is not the end of a journey (Kotter, 1995, p. 67).

When a road block is seen on the implementation program the issue could be resolved by changing the plan or changing the viewpoint. Bringing in new people into the team will be a beneficial idea as the fresh eyes will capture something which was missed by the existing team (Kotter, 1995, p. 73).

(8) Anchor changes in the culture

John Kotter says that for any change to be sustained, it needs to become embedded in the new " way we do things around here" – that is the culture. McDonalds has been seen as a fast food chain. It is really important to implement the change in a way that the trademark is not affected by the change.

A major part of this is to articulate the connections between new behaviours and organisational success. To benchmark with organisations that have

succeeded as a result of change and innovation and replicate their success (JohnKotter, 2011).

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