

McDonald's company

[Business](#), [Company](#)



McDonalds Company began its operation in 1937 when two brothers Dick and Maurice McDonalds opened a small drive-in restaurant in California. Their first two menus were hotdogs and shakes. By 1948 the business was very successful and they had been able to create a bigger drive-in restaurant but they realized that about 80% of their revenue comprised of Hamburg sales so they had to close and restructure their business. The new model comprised of dining for family and implementation of a speedy service system with a nine item menu.

Following the success of the business its first franchise was opened in 1952 and sold to Neil Fox in Phoenix, Arizona. Due to extensive growth and need for more funds to expand the business went public in 1965 and its shares started to be traded on Wall Street. In 1967 it opened a restaurant in Canada which was its first outlet outside the United States and marked its beginning as a global company. The global expansion led the company to open stores and franchises around the world and currently it operates in over 120 countries with over 30,000 stores (Morgan & Leavitt, 2008).

Though the company has enjoyed an extensive growth it also encountered problems and challenges during its expansion which include poor management, competition, poor response to changing needs of customers and franchises and bad marketing. The company's brand mission is to "be our customer's favorite place and way to eat." They have also aligned their world wide operations around a global strategy known as Plan to Win. This plan focuses attention on exceptional customer experience and consists of the 5Ps i. e. People, product, place, price and promotion.

Through the use of porter five forces the company will be able to identify areas of improvement or changes required in order for the business to remain competitive in the fast food industry. Analysis of McDonalds using the porter 5 forces The main purpose of this analysis is to assess the competitive position that McDonalds occupies within its industry. The five forces to be analyzed include rivalry within the industry, threat of substitute product, threat of new entrant, bargaining power of the buyer and bargaining power of suppliers.

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1 Threat of new entrant The threat of entrant is high in the industry due to high profitability and growth the industry have been experiencing in the last 10 years. This attract various players in the industry and considering that the capital requirement to start such a business is small then many firm are now joining the fast food industry and increasing the intensity of competition. One of the barriers to entry that McDonalds have been using is the economies of scale. Since the company has been operating on a large scale it has been able to lower its operating cost as compared to new entrant.

For instance its various restaurant located in different countries are recycling used cooking oil for re-use as bio-diesel which is environmental friendly. In UK and Australia the fuel have been used in delivery trucks and taking into consideration the increase in global fuel cost then the program have enabled the company to save much in term of transport cost. Further more 3 the company has been able to introduce bulk oil program which involves delivery

of cooking oil to various restaurant via a portal located on the exterior of the restaurant which connect to a tank in the store. Read about

McDonalds Ansoff Matrix

This have enabled the company to save on packaging cost that would have been incurred if the delivery was through small plastic jugs inn corrugated boxes (gilad, 2003). One of the other area where McDonalds has been able to cope with threat of new entrant in the market is it brand identity. through effective marketing strategies McDonalds have been able to sell it ideas to the household and the brand name have become so familiar in the market just as other famous brand in the market such as coca-cola, Pepsi and it main competitor star buck.

One of the way through which it has been able to create it brand identity is through several socialresponsibilityprogram such as student sponsorship and charities. One of the charities run by the company is Ronald McDonald house charities (RMHC). This has led to employees, owners and suppliers supporting the initiative since they believe that supporting families, children and community is a right thing to do. This has been critical in building trust between customer and the brand.

The company is using costleadershipas it strategy to compete with new and also old rivals. McDonalds enjoy cost advantage compared to other players in the industry and this will in addition act as a barrier to new entrant. Technological advancement have enabled the company to introduce labour saving equipment while at the same time stream line many processes which include having the US restaurant change from standard 4 beverage machine

to automated ones. The threat of new entrant is high and poses a major threat to business survival. 2.

Threat of substitute product When it come to substitute the threat is real as there are a number of them, except that McDonalds can hold their own ground since the satisfaction each one of them avail is different. Consumers are becoming increasingly conscious about their healthy and with the US and other market recording a high number of people withobesityand other relatedhealthproblem most people are avoid sugary and food with high fat content i. e. junk food. This means the variety and taste of products that the company develops could give it a competitive edge.

Low switching cost has increased the threat of substitute as buyers can switch to substitute without incurring any cost. Furthermore there is a high buyers inclination to substitute due to the health issue mentioned earlier. The price performance of substitute does not seem to increase the threat as the products are not close substitute (Finlay, 2000). In dealing with threat from competitors the company has introduced a new program called McDonalds moms quality correspondent program which aim to improve on quality and meet customers health expectation and taste.

Most people equates fast food with words like low quality and cheap therefore the main concern of the organization was to share the truth with million of their customers and that is how they came up with a simple strategy of one mom at a time. Since moms make family decision concerning meals, that is why mom's quality correspondents (MQC) is important in 5 changing negative perception about safety, quality and nutrition of the product they love and serve. The program also involves moms who are

freelance writers with their own blog which allows them to share McDonalds experience with others.

They given a chance to ask question and witness how the company product are made. They usually meet with the firm nutritionist and menu development staff and also take several trips to sources of food. Documentation through the MQC website of all this field trips is done where photos, videos and journal entries are made. The program has enabled the firm to create brand ambassadors where McDonalds have not only managed to change their perception about food quality but also in reaching millions of customers through sharing the experience.

Therefore technology can be said to have played a major role as it has allowed sharing of messages with many customers. The main strategy that the firm has been using to deal with threat of substitute is focus on a specific target market and providing quality product which meets customers need. Substitute can be said to have a low threat to the firm's survival. 3. Rivalry within the industry The competitive rivalry within the industry is high due to the large number of firms in the industry.

In addition the low switching cost allows customers to switch from one product to the other and this has increased competition within the industry as firms are struggling to capture customers. Further more there are low level of product differentiation and consumers can hardly tell the difference in product sold by competitors and this has also increased intensity of competition within the industry. Since most of the products are perishable firms try to sell their merchandise as soon as possible which has also played

a 6 major role in increasing rivalry as firms try to unload their products at the same time.

McDonalds has adopted product differentiation as its main strategy in dealing with rival. One of the initiatives adopted by the firm is a new packaging that is content with the world. The new packaging offers a unique opportunity for the firm to connect with more than 58 million people around the world every day. The new packaging extends the firm story while at the same time remind customers about food quality and freshness through one of the most visible medium. As matt biespiel the global brand strategy director of the company says " packaging is the ideal place to tell stories.

" In current market customers receive hundreds of advert every day which bombard their mind therefore the company has focused on building trust, honesty and consistency. As biespiel put it this sensitivity " carries consistent brand messaging around quality and build trust by encouraging people to learn more about the food they love. " improvement in technology has enabled the packaging to use striking and visual style in communicating food quality and passion. In support of the new packaging the vice president of the firm said that " language can make a brand as familiar as your best friend.

" Furthermore in competing with star buck which is a major player in the industry McDonalds has introduced WI-FI hotspots in its restaurant which covers more than 200 sites in US and successful implementation of the technology will lead to introduction of the same service in the global market. Other ways through which the firm has dealt with rivalry within the industry is through the creative use of distribution channel while ensuring that their

stores and franchise are located in strategic position and exploiting relationship with supplies.

Rivalry within the industry therefore has a high threat to the firm's performance. 7 4. Bargaining power of suppliers. Supplies play a major role in the industry since most of the product used are supplied from outside. What increase the bargaining power of suppliers is that these inputs have a major impact on cost and differentiation of product. In addition there are no substitute inputs which give supplies more power while bargaining with the business. One of the major areas where the firm has been able to deal with supplies power is through the quantity of good supplied.

Since the firm place a large order then it is able to bargain effectively with supplies who are interested with large volumes. To improve efficiency and productivity then McDonalds has been working closely with supplies in identifying potential production and sourcing efficiency. Improvement of technology has enabled the company to introduce self-order kiosks. Therefore supplies can be said to have low threat to the business.

5. Bargaining power of buyers Consumers have high bargaining powers due to availability of substitute and low switching cost.

The large number of firms in the industry also gives the consumer a variety to choose from and this further increases their power. In fast food industry consumers have full information of availability of product and their prices and considering that they are price sensitive then this further increases their power. In dealing with this threat McDonalds has focused on three main areas which include product differentiation, brand identity and quality

improvement (temporal, 2000). The company has employed product differentiation and focus as its strategies in dealing with consumer bargaining powers.

In distinguishing itself the company has developed a range of health products. In US health focus entailed new meals for adults and include bottled water, salad, a pedometer and some advice to walk more. In differentiating their brand values McDonald has been emphasizing on health related issues through sponsoring physical education programs which appear in US public elementary schools. In order to burn off burgers and shakes the company has started to sell bikes and skateboards and this also aims to differentiate it from other operators in the fast food industry.

Furthermore the new packaging which has been made possible thanks to the new technology has created such a brand image which competitors have not yet been able to imitate. Through charities and other sponsorship undertaken by the company many consumers have switched to the brand to support the initiative. Therefore the bargaining power of consumers can be rated as moderate threat (Cavgugil & knight, 2000). Conclusion McDonalds have performed favorably in the fast food industry compared to its key rival and has reclaimed its market share in the industry.

In dealing with threat in the industry the company has been using two main strategies which include product differentiation and focus. Through the analysis porter five forces the company has positioned itself to deal with various threats in the industry and it is apparent that their strategy matches what their publicly available information says.

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