

Corporate level strategy research papers example

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



Business-Level and Corporate-Level Strategies

Introduction

McDonald's is world largest fast food service retailer. The company has successfully expanded its business outside US market. It operates in 118 countries and has opened around 33000 restaurants. Richard and Maurice McDonald founded the company in 1940 in the United States as a standalone barbecue restaurant. Further in 1955 Ray Kroc started franchising restaurants and improved company return on capital. Hamburgers, cheeseburgers, French fries, chicken, soft drinks, milkshakes, breakfast items, and desserts are the basic menu of its restaurant. The mission of the company states that “ to be our customers' favorite place and way to eat and drink”. Its worldwide operation is based on a strategy to provide excellent customer experience in terms of People, Products, Place, Price and Promotion. In the following portions of the report, the company's business level strategy, corporate level strategy and its macro environment is discussed.

Business-level strategies

With the help of business level strategy organization tries to satisfy the customer needs and preferences so that they can earn above average returns. Out of three generic strategies of Michael Porter, a firm needs to choose among differentiation, low cost or focus strategy so that it can deliver better than its competitors (Gallagher, 2008). At the onset of the business, the company had a low cost strategy. They sold the hamburger at the lowest price. This was possible by focusing on a specific type of customer, in a

specific type of location, with a limited product line, minimizing their costs, and competing on the basis of price and fast service. However, with the passage of time and increase in competition from other fast food chains, McDonalds had to think beyond their low cost strategy to maintain their position in the market. To maintain its competitive advantage, the company gradually sorted to differentiation.

The company now no longer positions itself as a low cost strategy follower. Rather it is more of a differentiator. The menu of the restaurants has been altered as it was in 1950's. Now there is more variety like Big Mac's, Happy meals, Egg McMuffins, Chef Salads, Ronald McDonald's, and even pizza to suit the different tastes of the customer. Further, the company has designed menu for the children and diet conscious customers by focusing on healthier food. (Dess, et. al., 2006). For its offshore business, the company was quick to adapt the local taste in its menu.

The company tries to differentiate itself in terms of innovation in its marketing effort, restaurant execution and operations so that it can provide excellent customer service (Annual Report, 2013). It tries to provide better service by encouraging innovation on supply side by maintaining best practices and continuous improvement. To encourage innovation throughout the company for effective differentiation the company has created a position of Vice president Innovation.

In the business model of McDonald's, people play a major role. Being in fast food service retailing business maintaining quality service is the key to success. In McDonald's people network consists of franchisees, suppliers and employees. The efficiency and hard work of all these people are equally

important for smooth and easy function of the restaurants. Thus, the company provides an opportunity for learning, training and advancement to all level of employees of company owned and franchised restaurants to enhance their skills. The skilled human resource helps the company to differentiate its service from others (Annual Report, 2013).

As part of the corporate strategy, the company tried to go for related diversification. That is, the company tried to venture into the fast casual restaurant business. This approach was different from their existing flagship chain of the restaurant business. The non McDonald's group of restaurant included Boston Market, Chipotle Mexican Grill and Donatos Pizzeria. However, the company was not able to earn profit with its diversification strategy. So the company decided to divest these businesses before it got associated with its flagship product (Sorkin, 2003). Presently the restaurants of McDonald's are operated by the holding company, its franchisees or its affiliates. It concentrates on hamburger fast food business. The global operation of the company is divided into five divisions - North America, Latin America, Asia, Europe and Middle East & Africa (Official Website of McDonald's, n. d.).

Franchising

In the initial years of the history of the company, it did not have the franchising model. To carry on the expansion strategy the company used the franchising strategy worldwide. It has successfully replicated its business model, not in the US but also in the global locations. Today more than 80% of the restaurants of the company are operated through the franchisees. It

has been consistently recognized as a top franchisor by Entrepreneur Magazine, Franchise Times Magazine, USA Today and Black Enterprise Magazine. The contribution of the franchisee business is as follows:

Source: Market Realist, 2013.

McDonald's Vertical Integration

In order to maintain the quality and safety of the food products, the company has laid strict policies for its suppliers who are followed in all restaurants worldwide. In certain regions, if the company does not get the required standard of the products, it resorts to vertical integration. Though vertical integration is not the standard practice of the firm in the United States yet it does to maintain its quality in other countries (Vignali, 1997). This helps the company to have easier access to the raw material. Due to different rules and regulation of the foreign countries, the company sometimes cannot follow the standard practices everywhere. For instance, meat is purchased in a specific way in Russia due to the local regulations (Vignali, 1997).

Adaptation in the standardized process is done to meet the legal and cultural demands.

Quasi-integration strategies

Quasi -integration strategy is followed by McDonalds on the downstream side. In this arrangement, the host firm controls the distribution system due to which the franchises do not require to invest fund or management resources needed for full integration. On the other hand, the host firm does not need to own the physical assets they are not especially specific or durable, however, have full control over the intangible asset of “ brand”. This

allows the host firm the right to cancel franchisee agreement for not complying with quality, service, cleanliness and value standards of McDonalds (Dess, et. al., 2006).

Environment Analysis

Economic Environment

McDonald has offered products of low price so that their consumers bought. The low priced hamburgers were the attractive deals for the consumers, and hence the company always tries to maintain economic prices. They have various products at various price points in different countries (Annual Report, 2013). However, the company feels the harsh effect of economic slowdown. The rising price of the raw materials often puts pressure to maintain its bottom line. In 2011, the company hiked its menu price by 1% to maintain its operating cost. In addition to this, the company profit margins are also hit by the fluctuating exchange rates.

Sociocultural Environment

As the company operates in multiple countries, it has to combat a lot of socio-cultural challenges. The advertisements of the products have to be altered according to the culture of the country. Recently in the US the company has been highly criticized for targeting the children in their ads. In addition to this, it has to alter its menu according to specific geographic location.

Technological Environment

The company has adopted the information technology to increase its productivity and enhance service. It has a fully integrated system which connects its suppliers to its stocks and other value chain activities. With the

increasing digital media influence on the consumer, the company has created its digital presence where the customer can choose and order their food. Many restaurants are being made technology enabled for the convenience of the customers.

Political and Legal Environment

Often a company has to come across complicated foreign policy of different countries. The change in government in a country often leads to the changes in the business sector. This brings legal issues as well as disturbs regular business operations. Of late, the company has been dragged to the court for selling unhealthy food. As fast food industry has been contributing to obesity, it has attracted negative attention. McDonalds has to fight many expensive cases to safeguard its reputation.

A fast cycle market is one which brings in more products faster. The innovations are more and the products become obsolete with the innovations. In such market scenario, where the tastes of consumers keep changing or demand for a variety, McDonalds have substantiated by widening their menu through innovation. A slow cycle market is one where the product does not come with innovation in a short timeframe. It takes time for innovation.

Conclusion

Amidst the fierce competition of fast food industry, McDonalds have been a continuous success story. The company has focused on its quality of food and service to delight its customers. To fight the ever increasing competition, the company has taken up differentiation strategy to maintain

its position as the market leader. For the business level strategy to achieve differentiation, the company is trying to achieve an all-round superior efficiency to produce superior service. This includes their product, price, place promotion and people. The company has supreme importance on innovation to make a difference in their service. In the corporate level strategy, the company focuses on the franchising model within and outside the united state. The geographic expansion is divided into five subdivisions. McDonalds do not have a standardized policy of vertical integration. However, for the sake of maintaining their quality standard of their product, they do vertically integrate. From the environmental analysis, it is understood that the company's operation heavily depends on various factors. While the economic factors affect the company's bottom line, socio-cultural environment affects its operation. Political and legal environment challenges the entry into the new market. In spite of these issues, the company has been successfully serving about 70 million customers every day worldwide. So, it has been able to contribute towards its mission statement.

References

Annual Report. (2013). McDonald Corporation. Retrieved from <http://www.aboutmcdonalds.com/content/dam/AboutMcDonalds/Investors/McDs2013AnnualReport.pdf>

Dess, G. G., Lumpkin, G. T. & Eisner, A. B. (2006). Strategic management: Text and cases (2nd ed.), Boston: McGraw-Hill Irwin

Gallagher, S. (2008). Business Level Strategies. Why Does Firm Performance Differ? Retrieved from <http://educ.jmu.edu/~gallagsr/WDFPD-Business.pdf>

<https://assignbuster.com/corporate-level-strategy-research-papers-example/>

Official Website of McDonald's. (n. d.). Retrieved from http://www.aboutmcdonalds.com/mcd/our_company.html

Sorkin, A. R. (2003). McDonald's Said to Weigh An Arches-Only Strategy. The New York Times. Retrieved from <http://www.nytimes.com/2003/03/28/business/mcdonald-s-said-to-weigh-an-arches-only-strategy.html>

Vignali, C. (2001). McDonald's: " think global, act local" - the marketing mix. British Food Journal, 97.