

Strategy in global context



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Executive Summary

McDonald's is a signature restaurant chain serving 58 million customers each day all over the world through its 31000 restaurants in 119 countries.

This report views the various internal and external factors affecting the McDonald's prior to that the report gives a brief introduction about McDonald's, its evolution and the way it entered the Indian market.

Evaluation of the response McDonald's is giving to the internal and external factors has been calculated through the Internal Factor Evaluation matrix and External Factor Evaluation matrix.

We have used the I/E matrix and the Grand strategy matrix to formulate strategies. We formulated two possible strategies i. i. expansion in the market and product development. The strategies that we formulated using the above stated matrices have been evaluated by using the Quantitative Strategic Planning Matrix to know which strategy is more viable.

Furthermore, the report provides an insight into the organizational purpose of the McDonald's. Current strategies and recommendations include the analysis of the strategies that McDonald's is using to hold and maintain its competitive advantage.

Introduction McDonald's is the largest burgerfast foodchain which has its operations in 119 countries. It serves around 58 million customers every day through its more than 31, 000 restaurants (McDonald's, 2009). McDonald's was started by two brothers Dick and Mac McDonald's in the year 1940. Ray Kroc became the first franchisee as he opened a restaurant in Chicago.

Restaurant became so popular among the masses that in just four years the number of McDonald's restaurants reached 100. QSCV i. e.

Quality, Service, Cleanliness and Value became the motto of the company and the execution of the same is one of the primary reasons why McDonald's is what it is today. In 1961, Ray Kroc paid \$2.7 million to Dick and Mac McDonald's and acquired all the rights reserved of McDonald's. McDonald's was growing at such a fast speed that in 1963, 500th restaurant was opened. In 1965, McDonald's went public and in 1967 first restaurant across the borders of USA was opened in Canada and since then McDonald's has never looked back.

Presently McDonald's has its restaurants in 119 countries of the world (McDonald's History, 2009). McDonald's got the approval to enter in the Indian market in the year 1991 itself but it took 5 years to study the market, needs of the people, adjust the menu according to the culture and to build a strong supply chain. McDonald's finally entered India in 1996 as it opened its first restaurant in New Delhi. McDonald's is a joint venture in India, which was signed in April 1995 and is managed and owned by Mr. Amit Jatia (MD of Hardcastle Restaurants private Ltd. who heads the operations in South and West India and by Connaught Plaza restaurants Private Ltd. which looks after the operations in North and East India. There are 158 restaurants in the whole country today (About McDonald's, 2009). McDonald's has always believed in thinking global and acting local. Before entering into the Indian market McDonald's made to changes in its menu as in India beef and pork items cannot be offered because of the religious sentiments of the people so they had to be eliminated from the menu.

Thus, making India the first country where McDonald's does not serve beef and pork in its burgers. External Environment External factors are the factors which do not exist within the realm of business itself and on which business has no control at all. We have used the EFE Matrix to conduct an external strategic – management audit (Annexure-1 shows the EFE matrix). The total weighted score of McDonald's is 3.04 this shows that it is performing with regards to the external factors in a very good manner.

According to Technopark report in 2009 the food industry in India stood at \$13 billion and estimates say that by the end of 2011 the fast food industry alone will grow to \$6.3 billion (Economic Times, 2010). The Technopark report also says that within the organized food service which is growing at a furious pace of 20% per annum the quick service restaurants are the fastest growing. This forms a huge opportunity for McDonald's and it is determined to grab that opportunity with both the hands as it is planning to open 180-190 more restaurants in the country by the year 2015 (Financial Express, 2009).

McDonald's is determined to expand its market share in the industry which is growing at a fast pace. The other reasons which are triggering this expansion are the high youth population in the country and rise in urbanization and per capita income. These reasons develop the new opportunities for McDonald's. Population living in the urban areas has also increased to 28% in 2004 and is expected to be increase by another 12% by year 2025 (Indian Demographic Scenario, 2025, 2009). In urban areas the number of dual income households is increasing.

Thus females, like their husbands, spend time away from home which has marked the way the females use to manage family meals. People have started opting for food away from home. Per capita income in India is also increasing very rapidly and moreover according to the World Resource Institute report 'Structure of poverty in India' which was published in the 2004 around 53% of the household income in India is spent on food, beverages and around Rs. 35000 crores is spent on eating out annually (Annexure-2 shows the rise in per capita income). Thus, the fast food industry has good prospects ahead.

Other key external factor that forms an opportunity for the fast food industry as a whole and also for McDonald's is the fact that 30% of the population of the country is the youth which is in the age group of 10-24 years of age who are generally inclined towards the fast foods (Youth in India, 2009). Rising consciousness about the health forms one of the greatest threats for the fast food industry. The trend has been changing towards the organic foods and the quick service restaurants will have to adapt themselves to sustain their market share. McDonald's has slowly started to adapt to this change by introducing salads.

For the foreign fast food chains like McDonald's, KFC etc. nationalism remains a constant threat for example when in 2005 USA denied a diplomatic visa to the Gujarat Chief Minister Mr. Narendra Modi, various protests were launched by the BJP party activists against the American MNC's. Low barriers to entry in the fast food industry is also a potential threat for the players in the market because if the barriers are low and the growth opportunities of the industry are high, new players will be willing to enter into the market and thus increasing the competition.

Internal Assessment Internal factors are the factors which exist within the realm of business itself and on which business exercise certain amount of control. We have used the IFE Matrix to conduct an internal strategic – management audit (Annexure-3 shows the IFE matrix). The total weighted score of McDonald's is 3.14, which means that it is performing with regards to these factors in an exceedingly well manner. McDonald's is a well known and a recognized brand across the globe. This familiarity of the brand among the masses forms one of the biggest strengths for McDonald's.

Efficient supply chain is one of the other key strengths for McDonald's. In India 50,000 crores of food produced gets destroyed because of lack of proper infrastructural facilities of transportation and storage. McDonald's had set up an efficient supply chain by investing 450 crores in supply chain management even before opening its first restaurant in India to implement its Quality, Service, Cleanliness and Value principle (About McDonald's, 2009). For any business, employees form the greatest asset and it is even truer in case of McDonald's.

The proficient work force that McDonald's has is one of the key reasons why it is one of the key players in the market today. The ability to provide the order within one minute is one such manifestation of this proficiency. The efficiency of the employees is also increased because of the various training programmes they go through which help them in performing their tasks quickly and in a better way but also enhances their capabilities which help them rise in their careers. Around 40% of the employees in middle management of McDonald's in India are the ones who had joined as crew members.

Business environment is very dynamic no business can afford to remain static; it has to work continuously towards innovation. Nearly 80% of McDonald's restaurants in India give certain percentage of their profits for research and development activities. This is another important strength for McDonald's. McDonald's has its operations in 119 countries; one of the key reasons for the McDonald's is the ability to make itself a part of the community. In India also McDonald's has been a part of various social welfare activities like – raising funds for charity on World's Children Day, helping in setting up pulse polio to eliminate polio.

McDonald's strategy revolved around customization of the menu to suit the Indian palate. (About McDoanld's, 2009) One of the key weaknesses that McDonald's has is that it faces a high attrition ratio as high as 83%, which means that company has to invest money for training of new employees again and again. (Business Standard, 2009) McDonald's often faces protests from environmentalists for promoting practices harmful to the environment through the disposal of tons of packaging material and through the effects of cattle ranching.

Another internal weakness for McDonald's is that is yet to capitalize on the trend towards organic food. Even though it has reacted to the changing preferences of the consumers by introducing salads in the menu but it is still to make the most of the opportunity. Organizational Purpose Clearly defined organizational purpose is very important for an organization as it describes the basis for its existence. It works as a directing force on the basis of which every decision is taken. The organizational purpose can be known with the help of three elements which are:

- Vision .
- Mission
- Objective

McDonald's vision is to be the world's best quick service restaurant experience. ('s, 2010) Being the best means offering excellent quality, service, cleanliness and value, so that it makes each customer in every restaurant smile. It has been the execution of the motto of QSC and V i. e. Quality, Service, Value and Cleanliness that has made McDonald's a success story. It strategizes to attain best value by providing top quality products at reasonable prices. McDonald's mission is to be its customers' favorite place and way to eat.

To fulfill this McDonald's has been using the concentration strategy where in it is trying for greater market penetration by attaining high level of efficiency in servicing its customers with a limited product line. Delivery of QSC and V on one hand keeps the customers satisfied and on the other hand also maintains the competitive edge over the competitors. The delivery of QSC and V is accomplished by taking care of every minute detail whether it is the unique cold chain network which makes sure that the customers get fresh products at low cost or the supply chain management which makes sure that customers are offered good quality products. (About McDoanld's, 2009)

Moreover to keep the customers satisfied McDonald's continuously updates its menu. Strategy Analysis and Choice In the IFE matrix the total weighted score came out to be 3. 14 and in the EFE matrix the total weighted score was 3. 04. This means that McDonald's is responding to the internal and external factors in a good way. We have used I/E matrix to come out with a

strategy for McDonald's on the basis of its score in the IFE and EFE matrix (Annexure-4 shows the I/E matrix). The basis of I/E matrix are the total weighted score of the IFE matrix which is represented on X axis and the weighted score of EFE matrix is represented on Y axis.

The I/E matrix is divided in three regions which have strategy implication. Quadrants I, II and IV are the regions of grow and build. Firms which position in Quadrant III, V and VII can be managed with hold and maintain strategy where as the organizations positioned in Quadrant VI, VIII and IX can be managed with harvest and divest strategy. McDonald's is placed in the I/E matrix it comes in the Quadrant-I because of its score in the IFE and EFE matrix which is 3.4 and 3.04 respectively. The business organizations which are positioned in Quadrant I can be best managed through grow and build strategy. The Grand Strategy Matrix is another widely used tool for formulating strategies. A firm can be positioned in the four quadrants on the basis of market growth and competitive position that it holds in the market.

When we placed McDonald's in the Grand Strategy Matrix it was positioned in Quadrant I mainly because of its high market share of 18% in the highly fragmented quick service restaurant and also because of rapid growth of the quick service restaurant industry itself. (Financial Express, 2009) Thus, McDonald's is in a strong strategic position (Annexure-5 shows the Grand strategy matrix). For the firms in Quadrant I market penetration, market development and product development are appropriate strategies. By using the Grand strategy matrix and Internal/External matrix we have come up with two strategies which are expansion in the market i. e. opening more restaurants in the country and the other strategies is product development

which is developing the new products and continuously updating the menu in order to pull more customers.

Need for product development arises specially because of the rising health consciousness among the people particularly in the educated class. To identify which strategy is more feasible we have used the Quantitative Strategic Planning Matrix popularly known as QSPM. QSPM is a strategic management tool to evaluate which of the possible strategies is better for the business organization. In QSPM weights and attractive scores are given to each factor according to the amount of effect it can have on each strategy and then the product of weight and attractive score is calculated.

The product for whichever strategy is greater is selected. We used two strategies expansion in the market and product development, the total attractive score for expansion in the market is 3.37 and for product development is 2.60. Thus, opening more restaurants is a more viable strategy than product development. Currently McDonald's has 157 restaurants all over India, majority of these are in the metropolitan cities or in larger cities like Chandigarh, Kanpur, Jaipur so it has very less or limited presence in smaller cities.

So, McDonald's should target these cities as they form a large potential market for it. With the per capita income on rise, high youth population in the country and increasing urbanization the smaller cities can prove promising markets for McDonald's. If we look at the current plans of McDonald's it becomes clear that they have spotted this opportunity as they are planning to open 180 restaurants by the year 2015 majority of these

restaurants will be opened in smaller cities. Retail initiatives are being taken up by petroleum companies like Bharat Petroleum Corporation. Financial Express, 2009) McDonald's can capitalize on this trend and can set up more outlets near the petrol stations on the highways and can thus increase its presence. Current Strategy McDonald's is currently focusing on expanding its base in the Indian market. By the year 2015 McDonald's is planning to start around 180 more restaurants, majority of which will be opened in Tier II cities where McDonald's has very limited presence. (financialexpress, 2009) So, McDonald's is trying to penetrate very deep into the Indian market.

McDonald's is also trying to come up with new products so as to satisfy its customers. Nearly 80% of McDonald's restaurants in India give certain percentage of their profits for research and development activities which helps McDonald's in coming up with new products and efficient service. When McDonald's entered the Indian market it had to re-engineer its menu and since then it has included several products especially for the Indian customers as McDonald's believes in thinking global but acting local.

McDonald's should continue with its strategy of expanding its base into the Indian market as still there are lot of untapped regional markets in the country especially in the Eastern India where it has less presence as compared to the other parts of the country. McDonald's should also concentrate on the smaller cities as large amount of population (nearly 177 million people) lives in smaller cities. So there is a huge market potential for McDonald's in Tier II and III cities. (Population in small cities, 2010)

Conclusion The Indian Quick Service Restaurant industry is growing at a very fast pace.

Per capita income, urbanization and youth population is also increasing in India. So India is a very potential and attractive market for the quick service restaurants. McDonald's should make the most of the opportunity and should penetrate deep into the market by increasing the number of restaurants in India. It should concentrate on increasing its base in the smaller cities which can form potential markets for McDonald's.

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Retrieved 2010, from [www.popcouncil.org](http://www.popcouncil.org/projects/TA_IndiaYouthSituationNeeds.html): http://www.popcouncil.org/projects/TA_IndiaYouthSituationNeeds.html Annexure-1 EFE Matrix S. No.

Key External Factors Weightage Rank Weighted Score 1. 2. 3. 4. 5. 1. 2. 3.
 Opportunities Increasing urbanization High youth population Rise in per
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capita income Indian quick service industry expected to be around \$6.3 billion High proportion of household income spent on food and beverages.

Opportunities

Increasing urbanization0. 1040. 4010. 10 High youth population0. 1540. 6010. 15 Rise in per capita income0. Indian quick service industry expected to be around \$6.3 billion by 20110. 1530. 4520. 30 High proportion of household income spent on food and beverages0. 1030. 3020. 20 Threats Rising health consciousness0. 1020. 2040. 40 Anti-American sentiments0. Low barriers to entry0.

Strengths High brand awareness0. 1020. 2010. 10 Efficient supply chain0. 1030. 3020. 20 Community involvement0. Efficient workforce0. 1030. 3020. 20 World class training programmes0. 0920. 1810. 09 Investment in research and development0. Quality of food0. 1020. 2030. 30 Customization of menu0. 0820. 1640. 32 Weaknesses High employee turnover0. Less variety0. 0810. 0830. 24 Environmental issues0. Yet to capitalize on the trend towards organic food0. Total Attractive Score 3.37 2.60