

The general  
environmental  
influenced mcdonalds  
development in china  
marketing ess...



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McDonalds is worlds leading fast food chain with annual revenues of about \$23 million. It has more than 1. 6 million employees all over the world with its divisions all over the world in beverages, snack foods, and restaurants. McDonalds's success is due to superior products, high standards of performance, distinctive competitive strategies and the high integrity of our people. McDonalds is still continuing to expand and introduce new alternative beverages in the market. About 85% of McDonald's restaurant businesses worldwide are owned and operated by franchisees. All franchisees are independent, full-time operators.

Fast food was not a completely new idea in china with a plenty of restaurants selling typical, light and simple Chinese food and beverages. When the first McDonalds franchise in China was opened by Daniel Ng in 1975, many local competitors did not believe that McDonald's would become successful. They rely on the idea that Hamburgers using beef patties and bread would not be able to flourish in a country dominated by rice, fish, noodles and pork. Since then McDonalds have grown in China that as of June 1999, there were already 235 McDonalds restaurant in China. McDonalds have so much penetrated China that even in the recent conflict when NATO accidentally bomb the Chinese embassy in Belgrade during the War in Kosovo , when it became the primary hit list for boycott of American food and beverages , that the McDonalds restaurant remained busy with local Chinese customers Mac Donald became so popular in china that by 2001 Chinese people owned 60% of the assets of the Mc Donald's stores, by 2002 McDonald's opened 130 outlets, totally 560 outlets in 94 cities in 19 provinces and at

present(2010) there are 1194 McDonald's restaurants in China, 200 and more are planned for the next years.

### **Critically analyze how the general environmental forces may have influenced mc Donald's development in china**

McDonald's first opened its operations in China in 1990. In 2006; McDonald's signed an agreement with the Chinese state oil company, Sinopec in which it granted Sinopec the right to open McDonald's stores at any of its new and existing gas stations. This in nutshell was Mc Donald's key expansion strategy in China.

(Watson/mighty students 2010)

When McDonald's started its first store in 1990, its ultimate rival KFC was miles ahead of Mac Donald having opened more than 1000 stores in china. At present there are about 2000 KFC stores in china which is about double than mc Donald. McDonald's has a lot of competition in China, not only from U. S. brands like KFC but also small brand like Mom and Pop.

Jobber, (2006)

Mac Donald's development in china was affected by variety of factors which can be elaborated in detail by PEST analysis and evaluating the porters 5 forces strategy. PEST analysis helps evaluate the political, enviornmental, social and technological factors that may affect an organisation when it decides to enter its business operations into new markets or new countries.

Kotler (1998) stated that PEST analysis is a strategic tool to analyse the present market condition of a business, understanding market growth or  
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decline, potential and direction for operations. According to porter (1985) PEST ensures that company's performance is aligned positively with the powerful forces of change that are affecting business environment.

Jobber, (2006),

## **Main Aspects of PEST Analysis**

(Google image 2010)

### **Political**

Political factor plays a major role in any organisations business expansion in new markets. The political condition of the country, region or the market has direct effect on the company's outcome there. When Mac Donald's started its operations in china china's government wanted establish its own fast food market and felt that western companies like McDonald's could spoil its plans. In 1990, the entry of McDonald's into china resembled the same bitter experience it had in Russia but later it moved on very smoothly in china, as it has moulded itself so nicely with Chinese culture that Macdonald's opened 96 restaurants in China, totaling 430 restaurants altogether in the by first six months of 2001.

(Scribd. com 2010)

### **Economic**

According to Thompson (2002) economic conditions impinge on how easy or difficult it is to be successful and profitable at any time because they affect both capital availability and cost, and demand. McDonald's as a global fast food chain had a great impact on the Chinese economy. McDonald's,

according to official statistics have nearly the 32, 000 restaurants all over the world in which 75% is operated by franchising, McDonald's have about 1200 restaurants in Chinese market out of which only 6 is operated by franchising. McDonald's main aim at present is to develop its franchises in china to establish their business all over the country.

(Pearce and Robinson 2005)

## **Social**

The social environment demonstrates demand and tastes, which changes with fashion and disposable income which can provide both opportunities and threats for particular companies

(Thompson, 2002)

Many social factors affected mc Donald's operations in china. for e. g. in April 2007 a Chinese owned newspaper revealed that mc Donald's have underpaid their employees in Guangzhou, Again four months later in the same year a state backed all china federation of trade unions called mc Donald's to let its workers unionise and adjust the pay. Many social critics also pointed out that mc Donald's have not applied the same health and environmental standards in china as it have done in other places.

## **Technological**

At present time Technology plays a major role in almost every organisation to gain sustainable competitive advantage from its competitors. While establishing its Chinese operations MacDonald's partnered with popular Chinese online shopping site taobao.

Com in Sep 2007 to give online shoppers coupons and other promotional items to promote its brand in china. To gain more competitive edge over its main rival KFC it also started home delivery service from some of its outlets.

(Capron and Glazer, 1987)

(Johnson and Scholes, 1993; Jan, 2002)

## **Porter's 5 Forces**

Porter's 5 forces analysis deals with the factors outside an industry which influences the nature of the competition within it. The competitive forces model proposed by Porter identified five forces which has a direct impact on an organization's behaviour in a competitive market.

## **Main Aspects of Porter's Five Forces Analysis**

- The rivalry between existing sellers in the market.
- The power exerted by the customers in the market.
- The impact of the suppliers on the sellers.
- The potential threat of new sellers entering the market.
- The threat of substitute products becoming available in the market.

(Google image 2010)

## **Force 1: The Degree of Rivalry**

The intensity of rivalry between the competitors helps determine the extent to which the value created by an industry will be dissipated through head-to-

head competition. McDonald's has a lot of competition in China, examples may include Kentucky Fried Chicken (KFC) and Mom and Pop food stands etc.

## **Force 2: The Threat of Entry**

The threat of new entrants is usually based on the market entry barriers.

Many new companies tried to enter the Chinese market like burger king, a strong contender of MacDonald's, but it lagged behind Mac Donald due to its brand awareness and outlet numbers.

## **Force 3: The Threat of Substitutes**

The threat of substitution depend on the switching costs i. e, the costs in the areas such as retraining, retooling and redesigning which takes place when a customer switches to a different type of product or service. Many restaurant chains like subway, rainforest cafe etc entered the Chinese market and won favour of many Chinese people but due to poor brand awareness they haven't been able to establish themselves in demanding Chinese market.

Jobber, (2006)

## **Force 4: Buyer Power**

Buyer power is one of the two horizontal forces that influence the appropriation of the value created by an industry. The size and the concentration of customers are the two most important determinants of buyer power. Growing income in urban china has pushed customers to place higher expectations on restaurants various aspects like design of their outlets, the innovativeness of their menus and nutritional quality of their food i. e, the steps well covered by MacDonald' in china.

## **Force 5: Supplier Power**

Supplier power is a mirror image of the buyer power. By utilizing its vast capital and technological knowhow MacDonald has developed its own internal supply network in China including farms to sell both domestic products and export markets.

(Home. comcast. net 2010)

## **Based on the external environmental analysis what are the opportunities and threats facing MacDonald's operations in China?**

Globalization is changing the face of the business world at present time. Companies operate in a very difficult environment and face numerous challenges when competing in global markets. Now a days managing global operations requires knowledge about various strategies and intercultural skills and that expand beyond traditional management principles and techniques. SWOT analysis is a strategic planning tool used to analyze the strengths, weaknesses, Opportunities and threats of an organisation. The key to a SWOT analysis is identifying the internal and external factors which are important to achieve the goals of the organization. The internal factors include strengths and weaknesses of the organization and the external factors are the opportunities and threats. SWOT analysis is popular among the managers for its simplicity as a planning tool and its flexibility to adapt in any situation or project. The strengths and weaknesses of a company depend on its internal elements like resources, operational programs, and departments like sales, marketing and distribution. An opportunity is a attractive condition which can be exploited to strengthen a strategic

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position, such as increasing demand for a new product. A threat is a condition which creates uncertainties which damage an organisation's performance and market share.

(International strategic management 2010)

(Marketing teacher. 2010)

(ukessays. com 2010)

## **Strengths**

McDonalds is world's greatest fast food chain with more than 31, 000 restaurants serving burgers and fries in almost 120 countries but it was still short in terms of number of outlets in china from its closest rival kfc.

Good innovation and product development. It continually innovates to retain customers in the business. While developing its business in china it emphasised more on Chinese culture and the Chinese preferences for food other than sticking to the traditional western menu.

More consumers' choice, reasonable value and great service provided to the customers.

Loyal staff and strong management team

Open door policy to the press

Strong internal supply chain- Mac Donald's has developed its own supply chain network in china including local farmers by forging joint ventures ties with powerful Chinese cooperation's and developing local farms in china.

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### Rigorous food safety standards

MacDonald's works hard to ensure its high food safety standards are met through rigorous training, food, safety and quality and menu development in each restaurant in china

### Affordable prices and high quality products

McDonalds Annual Report (2008)

## **Weaknesses**

### Difficult to find and retain employees

MD has had hostile relationships with workers rights unions and although this has been controlled, the company does find it difficult to find and retain good employees. According to a report by a Chinese owned newspaper in April 2007 mc Donald's have underpaid their employees in Guangzhou which caused many problems between the workers and the management team with in the organisation.

### Promote unhealthy food

Many social critics pointed out that mc Donald's have not applied the same health and environmental standards in china as it have done in other places.

## **Opportunities**

Joint ventures i. e, with powerfull Chinese cooperation.

Strengthen its value proposition and offering, to encourage customers who visit coffee shops into McDonalds.

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Continued focus on corporate social responsibility, reducing the impact on the environment and community linkages.

Attractive & flexible employment

Positive environmental commitments

MD incorporates environmental commitments in its daily operations, from maintaining daily drive-thru cleanings to providing sustainable fish sources to using recycled packaging.

McDonalds Annual Report (2008)

## **Threats**

Competitive pressures on the high street by new entrants like kfc(biggest competitor of Mac Donald's in china, subway, malan noodles etc.

Unhealthy foods for children

Mac Donald's had not applied the same health and environmental standards in china like it did in USA. For example its happy meals targeted at children offered better for you substitutes in USA not in china.

Health concerns surrounding Beef, Poultry & Fish

Labor exploitation in China

Chinese manufacturers exploit labor in their production of ' Happy Meal' toys. Mac Donald's could use its purchasing power to its advantage to demand that manufacturers provide toys without exploiting labor.

## Local fast food restaurants

local restaurants like daniang dumplings, yonghe king, kungfu catering has given good competition to Mac Donald in Chinese markets.

In summary, a SWOT analysis provides a ideal framework for appraising an organization's internal and external position in its environment and their potential impact on performance. The McDonald's SWOT analysis in china highlighted many threats and weaknesses and its strengths highlighted its strong purchasing power which could potentially be used to demand socially responsible production from its Chinese manufacturers and meat suppliers. It also showed how a more proactive and longer-term approach to its strategies can help it to anticipate changing consumer tastes and demands.

Hoovers (2008)

McDonalds Annual Report (2008)

## **What are the strategic groups in the fast food industry in china? In which strategic group does Mac Donald's china compete most?**

The fast-food industry of the world worth's more than a billion with multiple and diverse players. Most of the strongest brands are American which by direct investments, joint ventures and by franchising have spread their outlets all over the globe. The most demanding market in the world at present is that of china due to its emerging economy. Many fast food chains like kfc, wendys, pizza hut have opened their outlets in china . McDonald's, which leads the industry in sales, profitability, number of retail stores and

overall brand recognition all over the world also has numerous outlets in china but is still lagging behind from its tuff competitor in Chinese market. KFC has nearly 2, 000 stores, double that of McDonald's. in china.

The fast-food industry in china is composed of national chain brands due to which there are just a couple of strategic groups associated with the fast-food market. The major national chain brands in china are McDonald's, kfc, and daniang dumplings. These organizations main strategy is to provide a product to the customer that is based on low-price convenience. Their strategic group is associated with many geographic locations and low price and quality. In competition with these large multinational firms are local fast-food restaurants in china like yonghe king, kungfu catering etcwhich focus on providing their customers with a quick, cheap alternative to the national brands. These businesses offer a low price and low quality product in few localities. etc.

Employee development became a core subject during Mac Donald's expansion in china as Operating McDonald's in Nebraska is entirely different than operating one in the heart of Guangzhou or Shenzen. McDonald's saw their role upon entering China as a catalyst to get the business started, then nurturing local talent to take over the long-term leadership roles

Introduction of the drive-through.- In the US drive-through is a valid and servable option but this concept when started in china was completely new and novel until recently in 2005. Before, the streets were filled with bikes. But with China's high and rapid economic growth within the past few years, bikes evolved into motorcycles which evolved into cars. At present with a

partnership with Chinese state oil company Sinopec, McDonald's has the right to open McDonald's store at any of Sinopec's new and existing gas stations.

(Metal development group 2010)

## **Conclusion**

McDonalds has seen many changes during its course of business expansion all over the globe. Despite the downturn the company has seen in china its financial situation is that the company is slowly climbing out of a low period and making a turnaround.