

# Environmental factors affecting mcdonald's management functions



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## **Executive Summary**

This analytical study aims to investigate and analyse the various environmental factors that can affect the working of McDonald's Corporation and

provide strategic recommendations for the enhancement of its organisational effectiveness, profitability and competitive advantage.

The operations of the firm, especially the globalised nature of its working and its extensive geographical reach, make it subject to various environmental

influences. The writer has accordingly shortlisted 12 important environmental factors, namely Customers, Products and Services, Competitors, Employees,

Technology, Political Factors, Economy, Environmental Factors, Culture and Religion, Globalisation, Legal Issues and Shareholders and analysed them in detail.

The writer has thereafter made use of the TOWS framework to provide several strategic recommendations for the enhancement of the firm's productivity,

profitability and competitive advantage. The main recommendations pertain to the utilisation of organisational resources for expansion of the nutritional value of the firm's products, the creation products for elder age groups and the expansion of the customer base of the organisation. It is

recommended that the organisational management of the firm should specifically focus upon removing prevailing perceptions about the nutritious value of the

firm's products and thus remove important customer associated apprehensions to future growth.

## Table of Contents

S. No	Contents	Page
	Executive Summary	2
1.	Introduction	4
2.	Product Line	4
3.	Environmental Analysis	6
3. 1.	Customers	7
3. 2.	Products and Services	7
3. 3.	Competitors	7
3. 4.	Employees	8
3. 5.	Technology	8

3. 6.	Political Factors	9
3. 7.	Economy	9
3. 8.	Environmental Factors	10
3. 9.	Culture and Religion	10
3. 10.	Globalisation	10
3. 11.	Legal Issues	11
3. 12.	Shareholders	11
4.	Strategic Analysis and Recommendations	11
4. 1.	SO Strategies	12
4. 2.	WO Strategies	12

4. 3.	ST Strategies	12
4. 4.	WT Strategies	13
5.	Conclusions	13
	<b>References</b>	14

## 1. Introduction

This analytical study aims to investigate and analyse the diverse environmental factors that impact the management and marketing functions of

McDonald's Corporation and thereafter provide strategic recommendations for the future. McDonald's Corporation, founded in 1940 as a barbeque restaurant, has grown over the years to become the largest global chain of fast food restaurants (McDonald's Corporation, 2014, n. p. The organisation has operations in 119 countries, approximately 440, 000 employees and more than 36, 000 retail outlets (McDonald's Corporation, 2014, n. p.).

McDonald's is one of the world's most successful business corporations and its operations have been studied in detail by various researchers

(McDonald's Corporation, 2014, . p.: Kennedy, 2014). The organisation has become a symbol for American business enterprise and corporate globalisation

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(McDonald's Corporation, 2014, n. p.: Kennedy, 2014, n. p.). The comparative price of a McDonald's burger has been used to compare the purchasing

power of different countries (McDonald's Corporation, 2014, n. p.). The firm owns approximately 15% of its outlets and operates them directly, the balance being operated by others through diverse franchising and joint venture organisations (McDonald's Corporation, 2014, n. p.).

The corporation operates in extremely challenging environmental conditions, characterised by intense competition from several large global food retailing firms and differing environmental conditions in its various markets (McGrath, 2013, n. p.). The firm has faced criticism from various groups of activists for its products and HR strategies (McGrath, 2013, n. p.). The next section of this structured analytical study provides details about the organisation's products; this is followed by sections on environmental analysis and strategic analysis and recommendations. The study ends with a summative conclusion.

## **2. Product Line**

McDonald's is known to be a hamburger fast food restaurant, which also sells soft drinks and a variety of sides (McDonald's Corporation, 2014, n. p.). The organisation has however over the years developed a wide range of food products that can be categorised into six segments:

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1. Burgers and Sandwiches
2. Drinks
3. Snacks and Sides
4. Desserts and Shakes
5. Salads
6. Breakfast (McDonald's Corporation, 2014, n. p.)

The following table provides the details of its products and product mix for the US market.

Table 1: Details of McDonald's Products and Product Mix

Product Segments	Details	Product Segments	Details
Burgers and Sandwiches	Angus	Snacks and Sides	Wraps
	Big Mac		Apple Slices
	Quarter Pounder		Fruit
	Hamburger		Fries
	Cheeseburger	Desserts and	Ice Cream

	Crispy Chicken	Shakes	Sundaes
	Grilled Chicken		Mcflurry
	Fish		Shakes
	Mcribs		Cookies
	Milk		Pies
Drinks and Beverages	Water	Salads	Side Salad
	Juice		Premium Salad
	Coffee	Breakfast	McMuffins
	Ice Tea		McGriddles
	Coke Products		Biscuits
			Cinnamon Melts



			Bagels
			Burritos

(McDonald's Corporation, 2014, n. p.)

McDonald's has also recently introduced its McCafe range of coffees, chocolate drinks and smoothies (McDonald's Corporation, 2014, n. p.). The firm also provides meal bundles like favourites under 400 (calories) Dollar menus, Extra Value Meals, Happy Meals and Mighty Kids Meals (McDonald's Corporation, 2014, n. p.).

The corporation is attempting to broad-base its food products to cater to diverse types of customer food needs (McGrath, 2013, n. p.).

### **3. Environmental Analysis**

McDonald's has to operate in an extremely complex environment on account of the internationalisation of its operations and the intense competition it faces from diverse firms in the fast food business.

The business environment of an organisation has several internal and external environmental factors that can influence and impact its working and shape its

organisational strategies and policies. McDonald's environment contains various elements, the more important of which are depicted in the following

chart.

Each of these factors is taken up for detailed analysis below.

### **3. 1. Customers**

McDonald's has retail operations in 119 countries and serves the needs of millions of customers (McDonald's Corporation, 2014). Whilst

researchers have tried to segment McDonald's customer base in various ways, the organisation primarily caters to the needs of children, young people,

parents, and business customers (McDonald's Corporation, 2008). Each of these customer segments has specific needs and the organisation has to fulfil

them as much as possible (McDonald's Corporation, 2008, p 2). Children, for example love to visit McDonald's because it is a fun place and

McDonald's responds to their needs with various toys, special facilities for birthday parties and other fun things for children (McDonald's

Corporation, 2008, p 3). It aims to provide nutritious meals for parents with children and has affordable menus for teenagers (McDonald's

Corporation, 2008, p 4). Business customers are provided with quick and affordable meals that fit in with their working schedules (McDonald's

Corporation, 2008, p 3). The organisation is constantly focusing upon the enhancement of customer satisfaction (McDonald's Corporation, 2014 n. p.).

### **3. 2. Products and Services**

McDonald's provides a range of food products to its customers in clean, well designed and attractively laid out retailing environments (Frenchman, 2014 n. p.). The organisation aims to provide customers with a range of tasty and nutritious food, delivered swiftly and at affordable prices (McDonald's, 2008, p 4). The organisation's products and services constitute its strongest attraction for customers and the organisation very obviously has to ensure that they meet customer needs and continue to delight them (Frenchman, 2014 n. p.).

### **3. 3. Competitors**

McDonald's has several competitors, each of which is constantly seeking a greater share of the market (Raphel, 2014 n. p.). It is important to recognise that the organisation faces competition from various large organisations, like for example Burger King, Wendy's, KFC and Subway and also numerous small fish and chip and fried chicken establishments (Raphel, 2014 n. p.). It also faces competition from strong firms like Starbucks, Taco Bell, Dunkin Donuts, Pizza Hut and Domino's Pizza (Raphel, 2014 n. p.). Each of these competitors is constantly working on its quality of food and service, as well as on diverse other options and strategies to attract customers (Jargon, 2014b, n. p.).

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It is important to appreciate that competition for McDonald's has increased significantly in the past two decades, which in turn has resulted in the slowing of the organisation's growth and some reduction in its market share (Jargon, 2014b, n. p.). The nature and intensity of the competition faced by the organisation very clearly shapes its organisational strategies.

### **3. 4. Employees**

McDonald's is overly reliant upon its employees for both the preparation of its food and for the quality of its customer service (Lovewell-Tuck, 2013 n. p.). Restaurant workers form the largest group in the company's employment structure (Lovewell-Tuck, 2013 n. p.). Each McDonald's restaurant

has average workforce strength of 50 employees; many of these employees join at the entry level and as part-time workers (McDonald's, 2008, p 3).

McDonald's has been subjected to substantial criticism in the past for its low wages, as well as for the high turnover of its restaurant employees, who comprise teenagers, transitional workers, students and working mothers (Lovewell-Tuck, 2013 n. p.). The effective deployment and marshalling of its employees constitutes one of its most important organisational objectives (Lovewell-Tuck, 2013 n. p.). The organisation provides vocational training to all

of its employees as well as the opportunity for securing promotions to higher positions, including executive positions in the organisational hierarchy

(Lovewell-Tuck, 2013 n. p.).

McDonald's has constantly worked upon its HR management strategies and attempts to motivate its staff with diverse rewards and incentives

(McDonald's, 2008, p 3). All employees in the top 10% of McDonald's restaurants receive bonuses on the basis of mystery shopper scores. The

organisation also rewards its outstanding employees with awards and trophies at Gala functions. Neal Blackshire, a senior official at McDonald's,

states that the organisation recognises employee behaviours, ensures that recognition and reward are right for the workforce and understands what employees

wish and value (Lovewell-Tuck, 2013 n. p.).

### **3. 5. Technology**

Technological advancements are affecting every aspect of the social and business environment and McDonald's takes care to ensure appropriate use of

technology for achievement of organisational objectives and competitive advantage (Baldwin, 2013 n. p.). It works on technology constantly to enhance the

optimisation of its operations (Baldwin, 2013 n. p.). The preparation of a big Mac, for example, now takes 60 seconds and is processed in three stages, including packaging (Baldwin, 2013 n. p.). The organisation is making use of several types of technology for storage of food, regulation of temperature, preparation of food, control of supply chain and financial management and reporting (IncisiveMedia, 2004, n. p). McDonald's is linking different responsibility centres through appropriate communication systems in order to enhance optimisation of efficiency and productivity (IncisiveMedia, 2004, n. p ).

### **3. 6. Political Factors**

McDonald's operates in several countries, many of which have different political systems (Han, 2008, p 73). It thus has to cater to various types of political pressures in order to ensure the meeting of its objectives (Han, 2008, p 73). Various governments are currently attempting to increase their control over the fast food sector on account of health associated issues; some of them are restricting the issuances of licences to franchisees (Han, 2008, p 74). Local political pressure has also been applied on the firm from time to time for its perceived role in the dilution of local culture (Han, 2008, p 75).

The corporation thus has to constantly anticipate the political environments of the different locations in which it works and take appropriate proactive or reactive action.

### **3. 7. Economy**

The general economic environment plays an important role in shaping the organisation's business strategies and policies (Thompson, 2002, p 36). The economic climate can affect discretionary incomes, customer footsteps, market brand, availability of labour and the prices and availability of materials

(Gasparo, 2012, n. p; Gould, 2012, p 608).

The organisational management of McDonald's, both local and central has to thus constantly work towards anticipating and overcoming diverse types of economic challenges (Gasparo, 2012, n. p; Gould, 2012, p 608). It is important to however appreciate that the demand for affordable food products is by and

large inelastic and stays high, regardless of the health of the economy (Gasparo, 2012, n. p; Gould, 2012, p 608).

McDonald's makes use of this benefit by ensuring that people can come to its outlets when they wish and purchase affordable meals for themselves and their families (Gasparo, 2012, n. p). The organisation has shown remarkable resilience during the recent recession and has protected its profit margin by

balancing its low priced menus with premium products (Gasparo, 2012, n. p; Gould, 2012, p 608).

### **3. 8. Environmental Factors**

McDonald's, as the largest food retailing chain in the world, has to deal with several types of environmental factors (McDonald's Corporation, 2014, n. p; McDonald's Corporation, 2010, n. p.). The firm makes significant use of beef, packaging materials, napkins, carry bags, oil, water and power. Its operations also result in generation of substantial amounts of solid waste (McDonald's Corporation, 2014, n. p; McDonald's Corporation, 2010, n. p.).

The firm has over the years worked towards the enhancement of operational sustainability and improving the ecological soundness of its operations (McDonald's Corporation, 2014, n. p). It has tied up with the Environmental Defence Fund (EDF) to ease the company's environmental burden (McDonald's Corporation, 2014, n. p; McDonald's Corporation, 2010, n. p.). It has introduced policies for enhancing the recycled content of its packaging material and for reducing the use of polystyrene (McDonald's Corporation, 2014, n. p). It has developed a rain forest policy and adopted beef purchasing practices that do not lead to deforestation (McDonald's Corporation, 2014, n. p;).



### **3. 9. Culture and Religion**

McDonald's has to necessarily work in diverse countries with different cultural and religious environments. It has taken the lead in offering customers taste and appearance variations in accordance with the demands of local cultures and religious customs (Cheek, 2014, n. p).

It followed up its entry into India, where Hindus do not eat beef and Muslims do not eat pork, by introducing vegetable McNuggets and a Maharaja Mac with

lamb meat (Cheek, 2014, n. p.). It has furthermore obtained certification for Halaal food for Islamic countries like Pakistan, Malaysia and Morocco and has advertised it on its menus (Cheek, 2014, n. p.). The firm's menu in Morocco offers dates, milk and cookies during the holy month of Ramadan (Cheek, 2014, n. p.). The organisation has taken care to ensure the standardised structure of its menu, even though it has provided for several local variations (McDonald's Corporation, 2014, n. p.).

### **3. 10. Globalisation**

Economic and cultural globalisation essentially involves the economic and cultural intermingling of different cultures (Salisbury, 2014, n. p.).

McDonald's, as an eminent food retailing organisation, is a leader of globalisation and has spread the American food culture across the world

(Salisbury, 2014, n. p.). It has, whilst doing so, had to take account of various social, cultural and global issues and respond to them with sensitivity, cultural sensibility, economic foresight and wisdom (Salisbury, 2014, n. p). The adoption of such carefully thought out approaches have helped it to overcome strong resistance in various areas of the world and establish successful operations (Salisbury, 2014, n. p).

### **3. 11. Legal Issues**

McDonald's has over the years been challenged by various legal issues in different countries. Its success has led many businesses to copy its name and logo and the firm has responded by taking legal action in several trademark associated cases (Petersen, 2014, n. p). The organisation has also been

involved in several litigations involving its employees and worker rights (ABC News, 2007, n. p). Some of these cases have gone against the organisation, leading to penalties and fines (ABC News, 2007, n. p). One customer was awarded several million dollars after suffering from third degree burns because of

spilling a hot cup of McDonald's coffee on herself (Petersen, 2014, n. p).

The corporation very clearly has to pay great attention to the legal aspects of its operations (Petersen, 2014, n. p).

### **3. 12. Shareholders**

Shareholders comprise one of the most important stakeholders of the firm. McDonald's has rewarded its shareholders well over the years in terms of market appreciation and dividends (Jargon, 2014a, n. p). The firm plans to increase its payout to shareholders by 10 to 20% over the next three years, even when it is under pressure to enhance sales performance (Jargon, 2014a, n. p).

## **4. Strategic Analysis and Recommendations**

This section entails the conduct of a strategic analysis and the provisioning of appropriate recommendations. A TOWS analysis involves the analysis of organisational strengths, weaknesses, opportunities and threats and the subsequent utilisation of strengths and minimisation of weaknesses for the exploitation of opportunities and countering of threats.

### **4. 1. SO Strategies**

SO strategies entail the utilisation of strengths for exploitation of opportunities (Henry, 2008, p 42). McDonald's is a global brand with a strong global presence (Lesser *et al.*, 442). It has economies of scale, a strong real estate portfolio, branded menu items and one of the world's most recognised logos (Research and Markets, 2013, n. p.). It also paradoxically has high employee turnover, a customer base that mainly comprises children

and young people and is yet to develop a reputation for healthy and nutritious food (Research and Markets, 2013, n. p.).

The firm should thus very clearly use its resources for expanding its customer base and for enhancing the nutritious value of its products (Lesser *et al.* , 442). It should focus on developing a range of food products that are targeted at elderly people who are likely to have health conditions associated with blood pressure, blood sugar and the heart (Lesser *et al.* , 443). The development of products for this customer segment will help McDonald's in opening up a completely new customer segment and in the development of truly healthy products (Lesser *et al.* , 443).

#### **4. 2. WO Strategies**

McDonald's has numerous opportunities for enhancing its organisational effectiveness, success and competitive advantage (Research and Markets, 2013,

n. p.). The growing population of the world, along with changing lifestyles and improving economies provides the organisation with significant opportunities

for greater growth (Jurevicius, 2013, n. p.).

It can reduce the weaknesses in areas of nutrition to target customers across its different segments (Jurevicius, 2013, n. p.). McDonald's does have

some salads on its menu, which offer health eating options to customers.

The organisation however continues to be perceived as a purveyor of high calorie

products that can lead to obesity and other health problems (Lesser *et al.*, 445). It can take several more steps, like the introduction of hummus

and tahini paste, feta cheese, and olive oil in its product range (Research and Markets, 2013, n. p.). Such efforts will certainly help the organisation in attracting more customers and enhancing sales.

#### **4. 3. ST Strategies**

ST strategies involve the utilisation of strengths for the reduction of threats (Williamson *et al.*, 2003, p 109). McDonald's currently faces

threats on account of the continuance of economic difficulties, foreign currency fluctuations, intensifying competition, nutrition associated issues of its

products and perceptions about the unhealthy attributes of its food(Lesser *et al.*, 445).

The firm can use its organisational strengths to enhance its supply chain management and improve its operating margins (Jurevicius, 2013, n. p.). It can

engage in significant and focused advertising and outreach campaigns to focus upon its commitment to various customer segments (Jurevicius, 2013, n. p.).

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#### **4. 4. WT Strategies**

WT strategies involve the reduction of weaknesses for the avoidance of threats (Thompson, 2002, p 32).

The firm can engage in specific advertising to reiterate its commitment to health, fitness and sports (Lesser *et al* ., 445). The sponsorship of sports programmes across schools, college and universities can assist the firm in enhancing th