

McDonalds porters five forces model essay



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Analysing McDonalds (fast food outlets) using Porters 5 Forces model – sometimes called the Competitive Forces model. Introduction McDonalds Canada opened in 1967, thirteen years after McDonalds had taken the United States by storm. This was the first restaurant to be opened outside of the United States.

It was in 1965 that McDonalds went public and offered shares on Wall Street. Since then it has been important for McDonalds to continually monitor its performance, to make sure it is competitive and profitable while also being aware of its immediate community responsibilities. This can be achieved by using the Porters 5 Forces model so the company is able to determine where its business needs to change or improve in order to stay competitive in the fast food industry. Using Porter's competitive forces model to achieve a competitive advantage 1.

Analyse McDonalds using a well known model to assess the competitive position that it occupies within its industry Porter's competitive forces model includes five forces that need to be analysed. These forces include the intensity of rivalry from traditional competitors, threat of new market entrants, threat of substitute products and services, bargaining power of customers and bargaining power of suppliers (Laudon & Laudon, 2007). See diagram below; Traditional Competitors (competitive rivalry) McDonalds traditional competitors include many of the other fast food outlets across the country, i. e. Burger King, Taco Bell, KFC, Wendy's. It has been shown by Professor Michael Waterson (2004) that the presence of a Burger King, for example, will increase the likelihood that McDonalds will open near by.

Thus it can be seen that the threat of competition from traditional rivals is intense and should never be overlooked. Threat of New Market Entrants There are many new market entrants emerging all the time but not on the same scale as McDonalds. Some of the newer entrants include chains of Sushi restaurants like Sushi Itto and organic fast food restaurants like O! Burger. To stay competitive McDonalds need to constantly analyse what these new entrants are providing to the public in terms of product and service.

Threat of Substitute Products Substitution of McDonald's products and services is always possible, but we need to look at the ease in which these can be substituted by the consumer. If we are looking simply at the supply of food for consumption it can be seen that alternatives are generally available. We may choose; however, to look at the convenience of having food available as well as a place for children to play and having close washrooms, thus McDonalds is managing to provide all of these to the customer in one location. It is the provision of all of these products and services under one roof that manages to set McDonalds apart from its competitors. Bargaining Power of Customers The bargaining power of customers is, on one hand, one of the strongest forces in this model, and one that is least able to be manipulated. If McDonalds is not providing what customers are looking for then they will take their business elsewhere.

The consumer is there to be served, and a business would not survive if it did not provide what a customer needed. However, on the other hand, if McDonalds loses one customer through dissatisfaction then this would not affect the company significantly. It would only be an issue if there was a

sudden and significant move away from McDonalds. Bargaining Power of Suppliers McDonalds has implemented what they call their 'three legged stool approach'.

They believe that the " stool is only as good as any one of its legs" (McDonalds Canada, 2006). McDonalds maintains a close relationship with its suppliers (being one leg of the stool) so as to ensure that the overall product does not fall below the standard set. McDonalds prefers to source its products and supplies locally and, in Canada, they use over 120 local suppliers. This helps to provide a stable supply of consistent products, reduce costs and provide local employment.

Their Canadian purchases represent more than 90% of total purchases in any given year (McDonalds Canada, 2006). While McDonalds suppliers are generally large and successful businesses in their own right they each have a solid understanding which enables McDonalds to consistently buy at the most economical prices, thus reducing the bargaining power of their suppliers. 2. Recommend a strategic direction for its future growth

McDonalds currently has a significant competitive advantage in its industry due to the longevity of the company, its careful marketing and convenient locations. By presenting a ' greener' image in all aspects of its structure the threat of new entrants and substitute products into the market place would be reduced as they appear to be the most dominant components in the model.

One aspect which may help to achieve this in the Canadian market would be the provision of organic alternatives and the reduction in packaging. By

encouraging its current suppliers to follow suit McDonalds can maintain its relationship with them while catering to the current concerns of its customers. To achieve this McDonalds may wish to carry out a survey on their current customers and do their own market research on eating trends in their local areas. They should also evaluate what menu items are popular and which ones are becoming less sort after. Conclusion The five forces in the Porters model as described above are significant in providing an overview of the business, its competitors and the environment in which it operates.

In regards to McDonalds Canada these forces are continually changing, yet some are easier to control than others. It appears that McDonalds has an affective supplier arrangement which helps to reduce any bargaining power that the suppliers may have over the company. They are able to rely on predictable and competitive prices and product. Substitute products are abundant, McDonalds reduces the threat of these products by producing a consistent and cost effective product in over 24, 500 restaurants around the world. In addition to these consistent products they also offer culturally specific menu items which helps to retain customers. McDonalds has a very large, constantly changing, customer base, which in turn means McDonalds must change with them.

They are able to have consistently high sales by providing what the customer wants. For example, an explosion of salad alternatives has emerged in the past five years to cater to health concerns expressed by the public. With the fast food industry well established in Canada, McDonalds' traditional competitors have all found their own niche. Their constant

changes are more directed at customer satisfaction than keeping inline with their competitors.

New market entrants, although small and initially insignificant, are exerting the most force over McDonalds Canada. They are able to cater to individuals a lot easier than a multinational company is and it should be these that McDonalds model any future changes on. As mentioned above, the introduction of organic products and the presentation of 'greener' images are essential for McDonalds to compete in a changing consumer environment. As environmental concerns become more of an issue for consumers they will be more aware of the impact that a company has on themselves and the environment and therefore be more conscious of who they support with their dollar.