

The Business Strategy of Mcdonald's

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Abstract

As one of the most successful fast food chain in the world, throughout the development of McDonald's, we could easily identify many successful business strategy implementations. In this paper, I will discuss some critical business strategies, which linked to the company's structure and external environment. This paper is organized as follows: In the first section, I will give brief introduction to the success of McDonald's. In the second section, I will analyze some particular strategies used by McDonald's and how these strategies are suitable to their business structure. I will then analyze why McDonald's choose these strategies in response to the changing external environment. Finally, I will summarize the approaches used by McDonald's to achieve their strategic goals.

Keywords: Strategy, McDonald's structure

Introduction

McDonald's, originated in California, USA, 1954, has become one of the most recognized and respected brands in the world. The success achieved includes that they have established more than 30,000 franchising stores in 119 countries, serving more than 47 million people each day, and generating about \$15 billions revenues annually. McDonald's also continuously enhances its brand imagine through different social activities and the sponsorship of special events and sports i.e. as a major sponsor of the world cup since 1994 and the Champions League football in England from 1996 to 2000.(www.McDonalds.com)

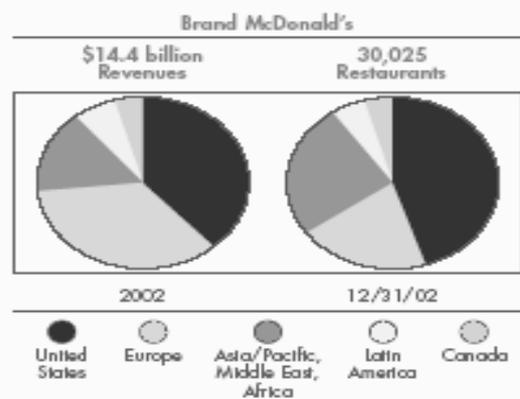
How can McDonald's achieve such success? There are many formulating strategies, which we could use for our analysis of their recipe of success such as Porter's competitive strategies model, which includes differentiation and low-cost leadership; or Miles and Snow's 'strategy typology', which defined prospector, defender, analyzer, and reactor strategy. Obviously, it is extremely important for McDonald's to choose the most appropriate strategy to be successful. From my personal point view, to be an Analyzer is the most suitable strategic position for them to develop their business as a whole especially when they facing an extreme complex continuously changing world.

As Miles and Snow defined that *"The analyzer tries to maintain a stable business while innovating on the periphery. It seems to lie midway between the prospector and the defender. Some products will be targeted toward stable environment in which an efficiency strategy designed to keep current customers is used. Others will be targeted toward new, more dynamic environment, where growth is possible."* (Richard L.Daft)

It is also very important to consider how McDonald's applies these strategies and how their strategies interact with their business structure and the external environment.

1. How McDonald's business structure influences its strategy?

The McDonald's business structure is based upon a geographic structure. When log on their website, you will be asked to choose the country that you are interested in. Actually, McDonald's divided its operations into five geographical divisions.



(www.McDonalds.com)

As shown in above pie charts that around 65% of McDonald's restaurants and approximately 75% of its revenues are generated in the United State and Europe. So, to McDonald's, the most important strategic approach for maintaining its leading position is to keep their major markets at the same time expanding their business into the other emerging markets. However, different consumer groups in different countries may have very different tastes and/or requirements. So each full functional geographic unit of McDonald's was required to wholly response for producing and marketing its products in that region. Through this regional structure, McDonald's could not only satisfy the local consumers' needs in different geographical areas but also pursuing 'maximum local development'. Actually they produce and market slightly different types of products in different areas, and they even have different prices. As Jim Skinner, the vice-chairmen of McDonald's illustrated that 'if you are looking for a command center with one push button that operate our restaurant in every corner of the world, you won't find it'. However, their philosophy of QSC&V-quality, service, cleanliness and value is same for everywhere. And McDonald's targets the similar consumer segments that need fast service, affordable price and good standard hygiene. So their main products are similar in most countries, where they provided service, including beef, chicken, bread potatoes and milk. As the consumers in different countries having different foods requirements, McDonald's keep launching new products for their regional consumers. In this case China and France can be very good examples.

2. McDonald's in China:

In 1990, McDonald's opened their first store in shenzhen (near HongKong). But before they actually started their business, McDonald's had already carried out 5 years business research and all sorts of information gathering such as the income level of the Chinese people, the kind of foods they enjoy etc. Moreover, their re-design of the counter, chairs and desks also reflected their considerations of the height and body shape of Chinese people. They made lots of efforts to promote their American burgers, and wanted to repeat the same success in China market as they has done elsewhere. Unfortunately, they are not as successful as KFC, their biggest rival, in China now. There are lots of reasons to explain it, one important issue which has once been ignored by McDonald's is that Chinese people are more prefer chicken dishes than beef burgers, which are their main products. After identified this problem, McDonald's has tried to adapt more Chinese tastes by adding more chicken meals into their menu for attracting more customers.(Chinese website)

3. McDonald's in France:

In France, where customers has been resentful of the fast-food chain's incursion, McDonald's has boosted it sales by remodeling restaurants i.e. hardwood floors, wood-beam ceilings, comfortable armchairs, and also by adding new menu items such as espresso, brioche and more upscale sandwiches. Actually they have successfully responded to the preferences of the local area. (Richard L.Daft)

In the other countries the situation is the same. For example, in Canada, McDonald's has introduced new Canadian feature breakfast. In Belgium, the McCicken Premiere has been added to the menu. Although McDonald's has been regarded as the ultimate example of standardization for the world market.

4. How the strategy is influenced by external environment?

The external environment can be divided into several sectors. In this section, I will only discuss two important parts: competitors, social concept (healthy problem) and uncertainty situation, which can greatly influence McDonald's strategies. Then at the last part of this section, I will discuss one particular strategy they used which served for their future development purpose.

Competitor:

It's unlikely that McDonald's can always be No.1. In an annual consumer satisfaction survey, McDonald's has been scored dead last among fast-food restaurants since 1992. In the fourth quarter of 2002, McDonald's disclosed its first-ever quarterly loss, one reason why McDonald's is struggling is that the consumers began to switch to its competitors, such as Burger King, Wendy's, and Subway. These companies emphasized on offering fresher, hotter, high-quality foods at lower price with faster service. On the other hand, McDonald's decided to close 719 poorly performing restaurants around world. All of these simply proved that McDonald's might no longer be competitive in the fast-food market. And if McDonald's cannot adapt external environment change, they might be gradually diminished and even replaced by other competitors. In order to keep their market share, increasing sales and profits. McDonald's has to respond to the threat of competitors. In 2003, McDonald's offered the McGriddles sandwiches in the US and the Canada feature breakfast. Meanwhile, McChicken Premiere and a zesty chicken have been introduced in the UK, France, Italy and Belgium. McDonald's was trying to satisfy customer's desire for premium products at affordable prices. Furthermore, McDonald's is providing more choice with respond to offer 'Happy Meal' to keep the children. For example, Happy meal now including chicken selects, and no-sugar -add fruit drink (juice and low-fat drink) and also to produce McDonald's coffee which appeals to adult. Those products have been made to attract existing customer and develop new customers.(www.McDonalds)

Moreover, in addition to the innovative menu, McDonald's is also rebuilding and even relocating some of their restaurants to make the environment more attractive. At the same time, McDonald's is differentiating itself by creating

more relevant experiences such as allowing the customers to access the Internet with the wireless technology platform. This innovative way not only attracts the teenagers, but also perfectly fitting the modern professionals' requirements.

Social problem –healthy issue

With the economic development, people's living standards have increased dramatically these years. People are becoming more concerned about their health issues. It cannot be denied that McDonald's has attempted to make itself more convenience for the people. However, people also believe that such kinds of fast food are not good for their health. The world health organization's report presented that those food not only can cause the obesity of children, but also is part of the reason of causing cancer. Healthy issues became the biggest stumbling block to the development of McDonald's. Customers were switching to healthier offering, such as Subway's sandwiches, or KFC's mashed potato instead of fried potato. McDonald's has responded to this healthy trend. In order to compete, McDonald's has added salads and other lighter options into their menu. If a mother comes in, she is not only buy the happy meal for her children, she will also be likely to buy herself a meal too .the lighter options also encourage existing customers to come back more often, because there is a greater variety of choices.

Focus on Children

No matter how different the tastes and the local needs are, McDonald's has paid considerable attention to the children in every country. They built 'happy land' for them, offering fantastic "happy meals" with novelty toys to them. Furthermore, McDonald's has just launched computers with games that were designed to inspire the children's imagination at the same time shape their personal characteristics. There are three main reasons for McDonald's to focus on the children:

- (1) Children are one of the biggest consumers groups to McDonald's. And McDonald's has been regarded, as their favorite place to go .The brand culture "happiness" is known by children.
- (2) McDonald's believe that focusing on children can build the stable business, and will provide the best engine to encourage the whole family to come to McDonald's. For example, one happy meal for a child only cost \$ 5 but McDonald's can produce more new products in addition to happy meal to offer the whole family.
- (3) By Building a brand loyalty with the children, McDonald's more likely to be successfully today and in the future. In my opinion, McDonald's is not just selling the happy meal to children; it is selling the American culture to the children – the enjoyable individual life.

Actually this strategy with focused children segment is fully worked for their future development purpose. Whatever how the environment changes this strategy can always develop future generation customers' loyalty. And the "happy children" can also bring in the whole "happy families".

Conclusion

To sum up, there is a strong possibility that if the company fails to recognize the new competitions, shifting of consumer interests, and the social trends or innovative technologies, it will loose its market share. Previously, McDonald's emphasis on adding new restaurants for near 5 years, more than 50% of increase in new restaurants opened. Unfortunately, there was only 2% of increase in the sale of the food. So, in the year 2003 McDonald's decided to change its focus on increasing sales at existing restaurant and reduced capital spending which allows for a sizeable amount of cash be returned to shareholder. For achieving their objectives, the McDonald's strategy should be attract more new customers, encourage existing customers to visit McDonald's more often, build brand loyalty and, ultimately, create enduring profitable growth for the company.

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