Global Business Strategy of McDonald's

Posted on October 2, 2018

Executive Summary

McDonald's is termed as one of the international companies which is centralized and is found to be the biggest competition for all the food chains operating in the world. This fast-food chain serves people different kinds of food including a variety of French Fries, Burgers and much more. There are a number of meals available for the children as well. This company is known for its expansion in the entire world. McDonald's reported 45,356 systemwide restaurants at year-end 2025. The older country count in the original sentence should not be used as a current measure of the company's global footprint. According to the research carried out the expansion observed in McDonald's is found to be rapid. Their intention towards making the expansion has been appreciated by a number of people. From franchising to making their own restaurants work, McDonald's is now moving to make up joint ventures in different countries. Introducing innovative eating styles and adding taste that never matches any of the eateries is the uniqueness found to be a part of the restaurants worldwide is what McDonald's is known for.

The company has been relying on this method for the past many years besides bringing in innovation for the company as well. The most important point in the expansion of McDonald's is in the franchising done by the company. The franchises of the company are giving maximum gains while keeping the loss minimum. This factor makes up a major part of the success of the McDonalds. Besides this, the company has a strong hold on the cost, quality and the operations being done. It is the cost of the food available that makes the company known worldwide. The strategy applied in the company is ethnocentric making it famous worldwide. In this research, the trading policies and economic variables affecting those trading policies have been highlighted. McDonalds' policies majorly consist of the franchising technique. The logical acceptance towards everything is an addition to the internationally famous approach of the company. Besides this, the research will be highlighting how the overseas operations are controlled.

Introduction

With the company's expansion all over the world and having world-famous branches, this company is making its position high in every corner of the world. Besides this, McDonald's is making itself the biggest supplier of fast food chains having unmatchable quality. McDonald's says more than 150,000 people work in its corporate offices and company-owned and operated restaurants, while more than 2 million people work in franchised restaurants; the two groups should not be combined as direct company employees. The majority of the world operates under the rules approach while there are countries operating on the cultural approach. Such countries have cultures close to their heart. The culture of such countries helps in adapting to the outside situation of the country as well. However, in certain cases, the culture is not adequate various other dimensions also need to be understood.

At least once a year, McDonald's gets the chance to serve more than half of the population of the world. Besides the fast food including French fries, Hamburgers, and burgers the company also serves salads, fish products and other food varieties in certain franchises of the company. The idea of expansion of all costs has been the main and key idea for making the company work since the early times. This philosophy indicates that you open as many branches as you can. The more branches will create more revenue and profit eventually and with the taste given by McDonalds, the target seems pretty easy. Every restaurant works on the idea of peak hour. In this attempt, McDonald's is the one to introduce this idea initially.

With the rapid pace of growth, the company introduced peak hours and utilized this idea in making the concept work. Every four hours in the evening make the customers happy at a minimal rate. This happy hour idea was added in the franchises and branches of different corners of the world. After this idea became famous company became famous. Domestic and foreign branches of the company are working successfully with the intense expansion plan. However, recently there is an issue encountered by the Company which has affected the sales of the company as well. The issues are being observed in the saturation across the globe. This issue of saturation will be discussed further in the research. Expansion in McDonald's is due to the four major principles being implemented in every branch of the company. Using the power of the brand name in the realistic market and making the customers habitual of the taste made the company emerge worldwide. The world has developed a taste for fast food after becoming fond of McDonald's. The expansion of the company, however, is not the major focus in the paper however the change in the eating habit would be the major topic of this research and will be addressed in further sections.

Economic Factors Affecting McDonald's:

In this research, the Chief executive officer of the company needs to know about the economic factors affecting the growth rate of the company. The economy of the country is an important factor which makes up a country. The economic conditions of the country affect every company operating in the native area. Since the company under consideration is expanded in the entire world, hence the changes observed in any corner of the world affect the economic growth of the company as well. This part of the research paper highlights the discussion that relates to the impact of monetary conditions and the conditions of the firms remotely and on the full scale as well.

External economic Factors:

One of the most important external economic factors in the situation of McDonald's is accompanying.

However, other details of the economic factors include the stable development of the United States no matter how slow the pace is. This is an opportunity for the company in this world. Besides this, the hazardous situation of the European economies is a danger for the company. The greatest risk for the company is present in the form of slow economic development of China. All these changes affect the company because of the worldwide nature involved in the company. Economic factors are important for deciding the supply and demand relationship of the raw material being made in the organization. Economic factors affecting the sales of the organization are inflation, wages rate and the extent to which the cost of living is increasing. The global presence shown by the company makes the working of the company affected by the inflation present in the world and the exchange rates as well. With the increase in inflation, the sales of the company decrease and vice versa. In case of the exchange rate, the company undergoes through unstable economic conditions and profitability.

Analysis:

The gradual progress of the company is observed under the economic conditions of America's Market. This is one of the greatest markets in the world. The financial condition of Europe makes development a bit difficult but it seems to be easy when the economic conditions of China are considered since China's economy may be one of the reasons for undermining the condition of the Chinese economy in the market (Qeen, 2018). Enhanced economic conditions in the United States have made the organization indicate enhanced execution techniques as well. The enhancement has made the strength of dollars even higher after this. The grounded dollar, in this case, will affect the benefits for the company. When the organizations are strong monetarily their execution comes out in the best possible form. Strong monetary conditions ensure the enhancement doubles than before. Keeping in view the point of the exchange rate, if the exchange makes the importance of the dollar in the stock market high then there are chances that the fast food chain companies like McDonald's show significant improvement.

Main (Primary) Economic Factors:

The principal economic factors are inflation and tax rates. Both these variables makes the organization to choose finest raw material in the manufacture of the food supplied they make. The finest raw material is bought at minimal cost bringing down the cost for the company. Hence the point by point dynamic investigation is making the organization to make their position strong (Asphagatus, 2018). The outlets of McDonalds are operating even in underdeveloped countries. This shows the strong financial condition of the country. Hence this fast food chain has influenced the economic situation of the United States of America.

Secondary economic Factors:

Secondary economic factors which are affecting the working of the company include the local, national and international conditions of the country playing their parts in the local brands.

Low employment and strong economy:

From this we can gather that the recession of 2008 was affecting the condition of the organization of McDonalds. Since this recession affected the United States as well hence the organization was also affected by the recession. The disposable income of the company became unstable. The United States of America and Europe showed unemployment in entire areas along with the fall in disposable income as well. This has developed one of the important results. The countries having low rates of employment and strong economy are what define the success of McDonalds.

Exchange rates:

The fall in sales of the overall market results in changing the taste and increased competition of the industry. The exchange rate affects McDonald's working. When the status of the dollar is weak the exchange rate gets better along with the betterment tin the financial operation of the company (DC 20549, 2018).

Analysis of the McDonald Report (2013):

In the report gathered by McDonalds in the year 2013, the organization believed that weak economic conditions pressure the performance since in this case maintaining the quality of everything gets hard since people are expecting more in minimal amount. However, the increased pressure made the company add 4.6% to the sales of the company. Fourth-quarter earnings indicated that the tight microeconomic conditions and pressure caused due to competition enhanced the earnings of the company (Rodrigues, Nikhil & Jacob, 2016). The same kind of information was shared by one of the Illinois-based Companies operating in the country. In the situation of pressure, the companies are bound to increase the quality along with minimal prices. Becoming famous in major countries, like the United States, requires the company to maintain its monopoly in the entire world and especially in the country.

On a global level, the sales of the McDonalds store are 0.9 per cent quarterly when the economic conditions are weak however, in the United States it is nearly 0.7 per cent. These stats are mentioned quarterly. In the entire year of 2013 with weak economic conditions and enhanced pressure, the company went through sluggish progress in the year. It was expected that sales might go flat. All this information has been mentioned in a report gathered by the company in 2013. This news was hard for the company to swallow. After this the company had to face accusations as well. These accusations believed that the company paid less to their workers along with the unhealthy food. At that time the company was undergoing immense competition as well since many other fast food chain companies emerged with strong bases at that time. According to the research, there was an increase observed in obesity disease, especially in the United States. This was another accusation added to the list of other accusations against the company. In this case, the company highlighted in their report that healthy and safe food is being offered in the form of a happy meal for the kids so kids do not become victims of obesity. At that time, kitchen tour offers made by the company started to gain the lost reputation back. They started to show the healthier side of the manufacturing process along with the promotional healthier beverages which proves to be a plus point.

Analysis of recent economic recession:

Analysis of recent economic conditions was disruptive for many of the industries and firms operating in the country. There was a decrease in the demand of the customer which not only reduced the profit but lessened the fame of the company as well. Not all firms shared adverse effects. Some of the firms owned this recession by taking advantage of the circumstances. At that time the firms saved from the recession started the campaign of valuing the money and started selling their products based on this statement. Here the organizations knew how they could reach into the minds of the reader to make things work for them.

Fast food eateries were saved from the recession since they started selling their products on the name of value and proved to be a cheap alternative in comparison to the restaurants that charge more. McDonald’s among all the fast food eateries offers taste and quality in lower prices. There was an increase of 4% demand in for the products of McDonald’s after every three months. It would not be wrong to say that the eatery enjoyed the perks of the recent recession observed in the economic market. A similar kind of increase in the product demand was expected in the outlets of McDonalds in other countries as well. These countries include Japan, France and Belgium. McDonald’s continued to focus on its more expensive standard menu options, and actually increased marketing spend by 7%, as many companies cut back (Yi, 2018).

Expected Issues in Future:

The success gained by McDonald’s in the past years is remarkable. This success can be maintained when the company addresses two major factors in the future to avoid further issues. The two major areas to be addressed are the increasing level of saturation in the global market and the idea of differentiating between corporates and franchises (Yi, 2018). These two areas need urgent addressing by the executive of the company.

Saturation in the international Market:

This research paper highlighted how competition in the global market has been saturated. Initially McDonalds focused on bringing a change in the fast food industry by introducing something new to eat with respect to the recipe. The organization aimed to alert the eating habits of the people. The number of competitors overseas were less at that time when the organization started off it business. The international market from the past decade is learning and depicting the saturation observed in the market of the United States. This has made the profits to shrink and lessen along with the slow rate of market growth as well. At that time when the condition of McDonalds was evaluated it was figured out that almost 175 franchises were seen doing cost cutting since the company in another case would have to suffer from loss (Yi, 2018). Outlets from 10 major countries repeated the same procedure. With the passage of time the international market is becoming more saturated and there is an increase in the competition as well. In this situation McDonalds should look into making adjustments accordingly along with a detailed analysis.

The saturation in the international market is observed more overseas. Now the working of the company and its operations are mostly foreign based, hence in this this becomes a major part of the McDonalds business. There is a constant debate on the autonomy of the world. Franchises are adopting the method and culture of the local economies whereas the company overall needs foreign implication in these branches. Franchises are giving an opinion that with the increase in competition, changes should be made locally based on the local economy of the country or the native city. McDonalds however has not reached the verge of the issues where the issue gets hard to overcome.

Geographic focus:

In the time of the early May 2015, global business was made to restructure so that the companies make working in the segments easy and quick (Neil M, 2017). From this the company decided on dividing the geographic focus into segments so that better implementation and the working of the operations can be observed. Following are the challenges and the growth opportunities in geographic focus by the company:

- Marking the United States as the largest segment of the company there was no change done to this segment in the report issued by the company in 2015.
- Internationally the markets of Australia, Canada and Germany are considered to be the leading markets. The operations within these countries and markets are operating with similar economic conditions as observed in the respective markets. The growth opportunities are similar in this case.
- Certain markets are termed as high growth markets. These markets conclude the countries of China, Italy and Korea (Nathan, 2018). In these countries, there is a potential for the company to grow exponentially.

- The corporate and foundation market is the heart of every corporation operating in the country. In this market, highly franchised models have been developed. Corporate activities are recorded within this segment.

Analysis of the International Markets:

China:

One of the news channels investigated the working of McDonalds in the country and figured out certain issues in the economy. After this time, the condition of the company in the market was undermined. Consumers in China are still suspicious about the issue figured in the industry. However, efforts are being made for making these issues under control.

India:

There are a number of brands operating in the market of India. In this situation, the revenue generated by the company is almost neck to neck. McDonalds has generated revenue of 14.2 billion last year in India while KFC is near making revenue of almost 12.5 billion.

Japan:

In the market of Japan, the company had to cut down its cost. This was mentioned in the report of 2013 in the summer. Although there are 3100 outlets operating in Japan still the number of people utilizing their services is minimal. This is due to the prevalence of culture in the country of Japan. Cost cutting was done to bring efficiency to the outlet. However, it is expected that the result will be favourable.

France:

There was a fluctuating situation in the sales observed in France. In one quarter it almost decreased by 1.1% however, in the other quarter there was an increase of almost 3.08% in the 1200 outlets operating in the country. However, the fragile economic conditions in France may be a concern for the organization.

Recommendations:

After analyzing the economic variables and the factors affecting the strategies, the following are some of the recommendations given to the organization to follow:

- There are situation when raw market becomes unavailable in the local market. In this situation the organization should import their raw material like meat and potatoes for saving some cost as well.
- All the franchises should pay some amount to the leading branch in the United States of America.
- There should be a keen observation related to the global supply chain of the market along with an analysis of the exchange rate of the money as well. Looking into the estimated fluctuations necessary changes should be made.
- The economy of the country affects the individual buying power of the person as well. This can in turn affect the economy of McDonalds as well.

Conclusion:

To conclude, analyzing global environment is not easy since there are a lot of possibilities associated with the global environment. The after-effects related to the economic recession are becoming larger with every passing time. The important role in this recession is played by the part of the dollar in the economy of the country. This condition becomes profitable for the companies to follow such as McDonald's undergone fluctuations in its operations over the past many years. The organization is trying to use the technology to serve their customers in a much better way. Social factors in this situation need to be highlighted as well. The inflation rate is one of the variables that affect the working of the economic conditions of the organization (Greenspan, 2018). It is not possible for the brand to control the economic conditions but significant opportunities and business growth is expected when the expansion needs to be done in companies with higher economic conditions. When it comes to economic factors the individual concerns of the companies are more than the market factors. McDonalds might face difficulty in its franchises with the passage of time but it can be handled when the wage rates, inflation rates and other factors of the country are analyzed keenly. The international supply of the company is bonded to the exchange rates. Exchange rates when lower, make the company get higher sales. This can be analyzed from the market values of dollars and the increase in sales of McDonalds. Economic standing and the cultural changes in the country should be considered while making the position of the country strong in the market. The rate at which the economy of that particular state grows determines the purchasing power of the consumers in that country. Hence, if a franchise operates in a particularly economically weak state, hence their products shall cost more than the other existing products in the market, and then these franchises must take on certain adjustments to maintain the economies of scale.

References:

Asphagatus, R. (2018). *Analysis of McDonalds*. *Is.muni.cz*. Retrieved 10 March 2018, from https://is.muni.cz/el/1433/jaro2015/PV240/um/mcdonaldcasestudy1-121216101857-phpapp01.pdf

Yi, S. (2018). *Strategic Analysis (SWOT, PESTEL, Five Forces) of McDonalds – The WritePass*

Journal. *The WritePass Journal*. Retrieved 10 March 2018, from https://writepass.com/journal/2012/12/the-term-restaurant-is-an-establishment-where-food-is-prepared-and-served-to-the-people-and-alwaysalmost-refers-to-any-sort-of-dine-in/

Greenspan, R. (2018). *McDonald's PESTEL/PESTLE Analysis & Recommendations – Panmore Institute*. *Panmore Institute*. Retrieved 10 March 2018, from http://panmore.com/mcdonalds-pestel-pestle-analysis-recommendations

DC 20549, W. (2018). *McDONALD'S CORPORATION*. *Sec.gov*. Retrieved 10 March 2018, from https://www.sec.gov/Archives/edgar/data/63908/000006390815000076/form8k.pdf

Yan, Y. (2018). *The Implications of Fiscal Policy and Monetary Policy to Business*. *Yourbusiness.azcentral.com*. Retrieved 10 March 2018, from https://yourbusiness.azcentral.com/implications-fiscal-policy-monetary-policy-business-12394.html

Qeen, A. (2018). *McDonald's and its challenges worldwide: a market-by-market look*. *Ft.com*. Retrieved 10 March 2018, from https://www.ft.com/content/f8ac22fc-a7c1-11e4-8e78-00144feab7de

Rodrigues, J., Nikhil, S., & Jacob, S. (2016). Promotional Strategies of McDonalds and Market Effects. *Journal Of Management Research And Analysis*, *3*(1), 53. http://dx.doi.org/10.5958/2394-2770.2016.00007.7

Nathan (2018) *McDonalds Expansion* Retrieved 10 March 2018 from http://www.businessinsider.com/mcdonalds-expanding-international-2014-4

Neil M. (2017) PESTEL *Analysis of McDonalds and the food industry* Retrieved 10 March 2018 from https://www.ukbussinesscom/article/marketing/pestel-analysis-of-mcdonalds-and-the-food-industry-marketing-essay.php