

McDonald's 5 Porter's Forces

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Introduction

McDonald's is one of the leading companies in the UK fast food industry. In information released for its 50th anniversary in the UK in 2024, McDonald's reported 1,435 restaurants and almost four million customers served each day across the country. One of the record-breaking performances of the company was seen in the annual fiscal year of 2008 when the company made a growth of 8%. The biggest strength of the company lies in the quickness of delivering restaurant services along with the high amount of food products available. Despite the fact that the company has made profits in the UK, all over the world overall growth rate is 7.1%. At the end of fiscal year 2011, sales growth all around the world in 5.6%. The first ever restaurants opened in the UK back in 1974. Since then company opened many restaurants all over the UK. In 2011, the company became more transparent due to the fact that it started printing nutritional information on the packaging. In 2014, the company celebrated its successful 40 years in the UK by contributing £40 Billion to the economy of the UK. In the year 2017, the company celebrated 11 consecutive years of growth in the UK (www.mcdonalds.com).

Currently, global industries have become very competitive, and all businesses are now working on competitive strategies so that they can beat their competitors and become leaders in their respective industries. [Porter's five forces](#) model will be explained in this paper. This five forces model will tell competitive intensity and the attractiveness of the company in its industry with respect to profitability.

Porter Five Forces Model

In response to the porter five forces model, McDonald's position in the industry is based on the effectiveness of the firm. The model identifies those relevant external factors that affect business organizations (Armstrong et al., 2014). To affect a firm's success and potential, the environment of the industry communicates with the company. This analysis gives out an insight about the company's strategic direction which needs to be according to the external factors. McDonald's five forces model yields the following intensities.

- Competitive Rivalry
- Bargaining power of buyers
- Bargaining power of suppliers
- Threat of substitute
- Threat of new entrant

From the analysis of the five forces model, McDonald's has to prioritize the problems related to consumer, substitute and competition. All of this exerts a strong force on the company. Innovation would be the possible course of action for McDonald's.

Competitive Rivalry

Because of high competition in the UK market and the fast food restaurant market being very saturated, McDonald's is facing tough competition. The current section of the model caters to the competing firms in the industry environment. A large number of firms are prevailing in the market, increased aggressiveness of the firms and low switching costs are the factors that contribute to the strong forces in rivalry. The fast food industry of the UK contains many global companies in the market with high sized along with local firms of small sizes. Each firm in the market is striving for a high market share, which has increased the competition. Many local companies are operating in the market that is providing the same products and the same menus, which increases the competitiveness of the industry (Dey, 2016). Each of the players in the industry is heavily spending on advertisements and the continuation of opening new franchises in different locations so that they can get access to more consumers around the country. Firms that are of medium sizes are also prevailing in the UK market. Customers of McDonald's experience low switching costs. This explains that the customers can go for other restaurant options available in the industry, such as Wendy's. The current section of the five forces model represents that competition is one of the significant external forces that make its impacts on the performance of the company.

Bargaining Power Of McDonald's Consumers

There is an enormous need that McDonald's has to address the significant power possessed by the customers. The current section of the five forces model is associated with the demands and influence of consumers on a company. The high number of providers, large number of availability or products and low switching costs are the factors that represent the high bargaining power of consumers. All of these factors are strong in nature and contribute to the bargaining power of consumers (Dean et al., 2015). Low switching cost explains that the consumer has a variety of options available to him that he can switch to any other restaurant that he thinks is better than McDonald's. There are many substitutes available in the market that contribute highly to the bargaining power of consumers. Most of these substitutes include Art bakeries and food outlets. From these substitutes one can cook the same product that he wanted to purchase at home easily. Based on these facts McDonald's must bring out strategies by which consumers stay loyal to the company. Customers' loyalty towards fast food restaurants is declining with every day that passes because of having so many competitors. Buyers have the power that they can easily protest against any price increase by the company and it is highly likely that they will shift to another competitor. This enables buyers with a situation where they have the power to bargain, and in order for McDonald's to retain its consumers, it should not make any increase in the process of the products in the UK.

Bargaining Power Of McDonald's Suppliers

Suppliers also impact highly on the profitability of the company. This section of the five forces model represents the impact of suppliers on organizations. Because of low forward vertical integration, increased overall supply, and high numbers of suppliers in the industry bargaining power of the suppliers is weak. These are factors that weaken the bargaining power of suppliers. The lack of regional and global alliances among suppliers is one of the biggest reasons that it has weak bargaining power. Suppliers of McDonald's are unable to control the distribution network maintained and linked with the company. This is the reason why suppliers have a weak force toward vertical integration. From this section, one can say that the supplier's power is a minimal issue for the company. This is because of the fact that flour and meat are abundant in the market. Most of the raw materials that McDonald's uses are chicken and potatoes, which are available in a wide range through a large number of suppliers. There are many suppliers in the market who can do anything just to become the supplier of McDonald's, which again reduces the power of suppliers (Crawford, 2015).

Threat Of Substitute

Substitutes are one of the main concerns of the company. This section of the five forces model represents the potential effects of the availability of substitutes on the profitability of a firm. Following are some of the factors that represent the strong force of substitutes over McDonald's. High availability of substitutes, increased performance-to-cost ratio, and low switching costs are some of the factors that lead to the high forces of substitutes. A high number of substitutes for McDonald's are available in the market. For instance, local bakeries and artisanal food producers, with the help of which one can cook his product at home. Due to this fact this impacts highly on the profitability of the company. If no substitute is available in the market, it increases the profitability of the company (Dey, 2016). However, these substitutes in the market are of good quality and somewhat according to the needs of the consumers, which is why currently, it is one of the main issues that the company is facing right now in the UK. Switching to the substitutes has no switching costs.

Threat Of New Entrant

The market share of the company may be impacted by the new entrants in the industry. This section of the five forces model represents the impact of new entrants on the firms that are already existing in the industry. High cost of brand developments, low switching and moderate capital costs are the factors that contribute to the fact that moderate force of new entrants is prevailing in the industry. As switching costs is very low, consumers can easily switch from McDonald's to any other new entrant company in the industry or even into the competitors. The moderate costs of entering the market make it very easy for small and medium-sized companies to affect McDonald's. To make a brand development like McDonald's is very hard for the new entrant in the industry, and it's also very

expensive. From this section one can say that every new entrant that comes in the industry poses a threat to the company and is one of the concerns of the company.

References

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