

# Marketing Competition Analysis of the Feasibility of Investment in McDonald's

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## ABSTRACT

With the globalization of the world, the development of western fast-food industry in China is getting better and better. McDonald's, as the leader of the western fast-food industry, has established a good market and has a group of loyal customers in China in recent years. In order to make a judgment on McDonald's investment feasibility, this paper mainly uses Porter's General Strategies, value chain, CSR models and Porter's five forces to analyze McDonald's internal and external market environment, comprehensively evaluates the competitive advantages and disadvantages of McDonald's in China's fast-food industry from different aspects, and find that the competitive advantages of McDonald's far outweigh its disadvantages in the comprehensive internal and external environment. This paper may offer some references for the investors who want to investment in McDonald's.

**Keywords:** *McDonald's, Investment feasibility, Value chain, CSR, Porter's five forces, Fast-food industry*

## 1. INTRODUCTION

McDonald's is a large global multinational restaurant chain. It was founded in 1940 in the United States and has about 30,000 outlets worldwide. It mainly sells hamburgers, as well as French fries, fried chicken, sodas, ice cream, salads, fruits and other fast-food products. China is McDonald's third largest market in the world and one of the fastest growing markets in the world. Since the first restaurant opened on October 8, 1990 on Guanghua Road in Shenzhen, McDonald's has had more than 2,200 restaurants and over 100,000 employees nationwide. According to statistics, McDonald's served more than 1 billion customers in China in 2014, providing them with quality food and service. Current studies of McDonald's have used one of the encouraged models to analyze one aspect of its competitive factors, and have not combined the internal and external environments to provide a comprehensive analysis of McDonald's. Therefore, this paper uses various models, including a comprehensive analysis of the competitive environment of McDonald's, to make a reasonable judgment of investment feasibility. The analysis in this paper will not only provide the fast-food industry with the successful experience of McDonald's, but also help investors to make a reasonable judgment on whether to invest in McDonald's.

## 2. STRATEGY ANALYSIS

### 2.1. Competitive strategy

#### 2.1.1. Standardization and Globalization

Standardization and globalization are important business principles of McDonald's. It is one of the most important reasons why McDonald's can maintain a leading position in the fast-food business [1]. Whether it is the brand image, store design or product flavor, McDonald's pursues the unity of its own image, which will not change by the difference of geographical areas.

#### 2.1.2. Youthful service

According to Porter's Generic Strategies, McDonald's use the differentiation strategy in customer segmentation. KFC, the biggest competitor of McDonald's, focuses on serving family members. To create differentiation with KFC, in 2003, McDonald's adjusted its target customer group globally and set its main service target at the dynamic young group [2]. Taking into account the actual situation of global market, McDonald's makes timely adjustments to its product sales model to satisfy the needs of the younger generation, while basically maintaining product standardization.

## **2.2. Marketing strategy**

### **2.2.1. Branding**

Branding is an essential approach to obtain a continuous competitive edge in a market. It reduces the process of user identification and consumption, and also creates barriers to entry. Foreign scholar Keller argues that a valuable brand can support a company to be an outstanding leader in the competitive market of similar products and bring considerable profits to the company [3]. McDonald's attaches great importance to brand building. It mainly uses advertising to improve the quality of the brand. In many public places, there are McDonald's billboards with a prominent product image and slogan. These billboards and the information on them have greatly increased the exposure of McDonald's in consumers' minds. Meanwhile, McDonald's also combines its advertisements with other social media, such as Twitter and Tik Tok, which also attracts the attention of young consumer [4]. For example, McDonald's launched an ad on Twitter in the form of a new line of candles. This quirky product format attracts the attention of consumers easily. Therefore, the quality brand effect allows McDonald's to maintain a smooth sales situation and sustain good customer loyalty, which has greatly enhanced its ecological position in the world fast food market.

### **2.2.2. Customer service**

The golden standard of McDonald's is "Customer first, customer always first". QSC&V principle is the highest standard, which illustrates and strengthens McDonald's "customer first". Quality means that McDonald's has set extremely strict standards to guarantee the quality of its food. Service is to provide warm, thoughtful and fast service according to the principles of care, concern and love. Cleanliness is the standard of cleanliness that McDonald's must strictly follow; Value is to further convey McDonald's principle of "providing more value and quality to customers". In order to provide convenience to customers, McDonald's has conceptualized the location of its restaurants from the perspective of customer needs. Most of the restaurants are located in commercial centers or transportation hubs such as subway stations and airports. At the same time, in order to avoid customers wasting time, McDonald's provides customers with limited set menu options, which can help customers make quick choices. Most importantly, McDonald's has developed a detailed and highly standardized workflow to maximize customer experience [5]. These measures have greatly improved McDonald's customer satisfaction and have given it a good reputation in the fast-food business.

## **3. VALUE CHAIN**

### **3.1. Support activities**

#### **3.1.1. Firm infrastructure**

Firm infrastructure includes the strategic objectives, business philosophy, organizational structure, corporate culture, rules and regulations, etc. Infrastructure is a macro concept that plays a common role for the whole value chain model [6]. If the firm infrastructure can be matched with the company's competitive strategy and marketing strategy, it will maximize the profit of the company. McDonald's infrastructure development is the most complete in the fast-food business. Competitive strategy has been analyzed to the extent that McDonald's uses globalization and standardization as competitive principles. In order to achieve standardization, McDonald's has developed a series of strict monitoring system. For better marketing, McDonald's set up a corporate culture of customer first and changed the target customer group from family members to young people through the advertising fashion value.

#### **3.1.2. Human resource management**

McDonald's has an outstanding human resource management model. Its slogan is: We just believe in young people. As a result, McDonald's has been one of the popular choices for young people to start their careers. Among the existing 180,000 employees, McDonald's China now has more than 60% of its post-95 employees. In addition, the rapid development of nearly 450 new restaurants each year will also provide more young people with a wide space for development. At the same time, McDonald's has made its unique employee value proposition a part of corporate DNA and continues to invest in its people to bring employees a unique experience of happy work and growth.

#### **3.1.3. Technology**

Technical factors show its significance in every activity in the value chain. McDonald's has accumulated advanced management ideas, excellent management systems and impeccable processes, which have become its core technology. McDonald's has equipped each manager with a pocket quality reference manual (Pocket Guide) so that managers can check and guide restaurant operations anywhere. In this way, they can correct problems in time to ensure that product quality can meet the required standards. At the same time, McDonald's uses a quantitative scoring method to conduct site analysis. If there is a large shopping mall around, it will use the number of customer flow and turnover as scoring factors, and if there is a bus route, it will consider the number of buses and subways. Then it adds up the total information to find the optimal location [5]. With the

development of Internet, McDonald's has occupied the position of e-commerce. On the official website of McDonald's, people can learn about the latest products, ingredients, nutritional values and prices. These technologies have greatly enhanced the value and competitiveness of McDonald's in the market [6].

### *3.1.4 Procurement*

Procurement is the activity of buying and putting into the value chain of a company. McDonald's establishes a comprehensive product supply network by hiring suppliers on merit and establishing close relationships with them to ensure that all McDonald's restaurants are supplied with the highest quality products. In the thousands of McDonald's restaurants in China, the local raw materials used come from nearly 100 suppliers, and the suppliers' information, business licenses and food business permits are all publicized on the official website [6]. Therefore, McDonald's values the service and quality of its suppliers, the relationship with them and tries to make them a part of the McDonald's system.

## **3.2. Primary activities**

### *3.2.1. Inbound logistics*

Inbound logistics mainly refers to the ordering, receiving, storage and inventory control of McDonald's restaurants [6]. In order to ensure the consistency of raw material supply, McDonald's has established an integrated a raw material supply system of production, supply and sales in China. All the restaurants have to do is to make a fine and orderly docking with the unified logistics distribution center. The orderly internal logistics makes McDonald's raw materials continuously available. Therefore, there is rarely shortage or hoarding situation.

### *3.2.2. Operations*

Operation refers to the processing of raw materials and semi-finished products into various products available for counter sale in McDonald's restaurants. McDonald's shows its pursuit of quality through every aspect of its production and operation activities with specific quality standards for raw material procurement, production operations, food cooking time and conditions, etc., which each McDonald's restaurant is required to strictly comply with. For example, McDonald's has strict control over the processing time and disposal time of each product. The outer ring of the clock in the kitchen indicates when a product needs to be discarded. If the product is stored longer than the disposal time, it will be discarded without hesitation [6].

### *3.2.3. Outbound logistics*

Outbound logistics mainly refers to the delivery

service [6]. McDonald's main competitors, KFC and Pizza Hut, launched take-out service first. In order to respond to the market changes and bridge the gap, McDonald's launched 24-hour McDonald's delivery service, established a professional food packaging process, a team of delivery staff and equipped with high-tech insulation delivery boxes. It also promised 24-hour service and delivery within 30 minutes. At the same time, McDonald's ordering phone number is 4008-517-517, which is easier to remember than KFC's ordering phone number.

### *3.2.4. Marketing and sales*

Marketing is the activity of increasing sales by attracting customers to buy more products. McDonald's mainly uses three methods to increase sales, which are reasonable pricing, promotional activities and advertising. For pricing, McDonald's makes full use of prestige pricing method, tail pricing method and benefit pricing method to attract customers. In terms of the timing of promotions, McDonald's is good at judging the situation and formulating promotion strategies through internal cooperation. Meanwhile, McDonald's has set up many billboards in public places. In order to cope with the huge advertising expenses, McDonald's set up a joint advertising fund and raised sufficient advertising funds with its partners, which attaches great importance to advertising [6].

### *3.2.5. Service*

As mentioned in the marketing strategy, the golden rule of McDonald's is "customer first". Therefore, providing convenient services to customers is one of the goals that McDonald's pursues. For example, in order to meet customers' demand for fast service, McDonald's has set up "Deli Speed" restaurants. They are located in the suburban areas of the city which is easy to access, such as highways and places where a lot of cars pass. In order to create a harmonious community atmosphere for customers, they take on the functions of public restrooms, children's playgrounds, student clubs and even school cafeterias. As a result, many customers are also happy to use McDonald's as a leisure place for entertainment, parties, reading and children's play [6]. McDonald's customer-first principle has won good customer loyalty and helped it steadily occupy the forefront of the industry in the fierce market competition.

## **4. CORPORATE SOCIAL RESPONSIBILITY**

CSR, the corporate social responsibility, requires the corporate to focus on the contribution to environment, consumers and society rather than profit only. McDonald's believes that the way to sustainable business development is to take a rigorous and positive approach

to corporate social responsibility [9]. Therefore, McDonald's attaches great importance to CSR and fulfills corporate social responsibility with practical actions.

#### **4.1. Environment**

McDonald's places great emphasis on environmental protection and sustainable development. From the end of 2018 to 2022, McDonald's China plans to open more than 1,800 green restaurants. In addition, McDonald's China is committed to continuously promoting green packaging. By 2020, paper food packaging will use international forest certified virgin paper, while actively reducing packaging materials. From November in 2018, some McDonald's restaurants in Beijing will pilot a straw reduction program to reduce the use of plastic [7].

#### **4.2. Consumer**

McDonald's is committed to protecting consumers' dietary balance and dietary health with a special focus on children's development. On the premise of ensuring the taste and quality of products, McDonald's has been striving to achieve less salt, better oil, more fruits and vegetables and grains. The new Happy Meals refer to the "McDonald's Global Nutrition Standards for Children" and fully consider the dietary needs of Chinese children. Moreover, McDonald's has always been committed to spreading dietary nutrition knowledge to children and cultivating scientific concepts of diet and health through a fun and educational approach. Out of the children's love of playing, McDonald's started a seven-year cooperation with Disney and chose Chinese children's favorite movie characters as toys [8].

#### **4.3. Society**

McDonald's is actively involved in public welfare. In 2008, McDonald's China and the Ronald McDonald House Charities Fund donated more than 15 million RMB to the earthquake-stricken areas in Sichuan, most of which will be used for the reconstruction of schools in the affected areas [9]. Meanwhile, McDonald's has always supported the development of sports. As a global partner of the Beijing 2008 Olympic Games, it has made positive contributions to promoting the successful of the Beijing Olympic Games. In 2020, McDonald's China announced its "Youth Unlimited" talent development program. From 2020 to 2022, McDonald's will invest more than 100 million RMB to help more than 10,000 young people enhance their employability and support their career development after graduation through the "Modern Apprenticeship" model implemented by the Ministry of Education nationwide [10]. McDonald's is also working with the China Soong Ching Ling Foundation to give back to the community by focusing on the underprivileged [11].

## **5. PORTER'S FIVE FORCES**

Porter believes that forces external to an industry usually affect all firms within the industry. The fundamental factor determining the profitability of a firm is the attractiveness of the industry, which in turn depends on the five competitive forces in the industry [12]. Porter's five forces of competition are: potential entrants, suppliers, industry firms, buyers, and producers of substitutes. The result of the competitive action of the five basic forces determines the possibility and degree of profitability of the firms.

### **5.1. Bargaining power of suppliers**

The bargaining power of suppliers is weak. Suppliers play an important role in the whole industry chain. The supplier's ability to increase the price of input factor and reduce the quality of the unit value mainly affects the profitability and competitiveness of existing enterprises. For the Western fast-food business, suppliers primarily offer meat, different kinds of vegetables as well as other agricultural products. As for agrarian countries such as China, the restaurant can get raw materials in various ways. Therefore, the restaurants have a lot of combination in the choices of suppliers, so the bargaining power of suppliers is weak. Accordingly, McDonald's is unlikely to decrease costs of raw materials from suppliers.

### **5.2. Bargaining power of buyers**

The bargaining power of buyers is weak. There are two different categories of the bargaining power of customers. They are individual customers and group customers respectively. For an industry like Western-style fast food business, individual customers dominate the market. Buyers influence the earning power of existing firms mainly through their ability to press for higher prices and demand higher quality of products or services. In the case of McDonald's, products are generally priced explicitly, and purchasers generally have no bargaining power.

### **5.3. Treats of new entrants**

The threat level of potential entrants is high. There are more and more new entrants due to the low barriers to entry and high market demand. The barriers of entry and the extent of counterattack of existing firms determine the threat of potential entrants. If the barriers to entry are high, the original enterprise counterattack is strong. Then it is difficult for potential entrants to enter the industry with the small threat. The most common Western-style fast food is hamburgers and fried chicken. So, the product differentiation is low. In China, except for McDonald's, KFC and a few big brands of Western-style fast food,

there are various individual fast-food restaurants. So, there is a high threat level of potential entrants.

#### **5.4. Rivalry among existing competitors**

The rivalry among enterprises in this industry is high. The well-known and strong western fast-food brand in China is KFC. Therefore, the main inter-enterprise rivalry in this industry is the competition between KFC and McDonald's. In this industry, the existing market structure is a duopoly market [2]. Moreover, the product homogeneity between McDonald's and KFC was strong when they enter Chinese market originally with similar products such as cone ice cream, hot wings and chicken burgers. So, the competition in this industry is strong.

#### **5.5. Threats of substitutes**

The threat of substitutes is high. Customer demand for fast food has diversity. Physiologically speaking, people are not willing to repeatedly consume a certain type of food for a long time. They often change the taste, resulting in the low loyalty of same fast food restaurant consumer. From an economic perspective, if people consume a certain type of food repeatedly, the marginal utility of the food will decrease, and the product will be replaced by substitutes eventually. For Western fast food, people usually choose Chinese fast food as its substitute. And in China, people still prefer the localized food such as Chinese food. Therefore, the threat of substitutes in McDonald's fast-food business is high.

### **6. CONCLUSION**

To conclude, this paper analyzes McDonald's from both internal and external aspects. From the internal perspective, it uses Porter's Generic Strategy, value chain model, CSR model to analyze the corporate strategy, internal factors and social responsibilities. From the external perspective, it uses Porter's five forces to analyze McDonald's external competitive challenges.

To evaluate the feasibility to invest in McDonald's, this paper critically concludes both advantages and disadvantages of McDonald's. For advantages, McDonald's can implement detailed and effective competitive and marketing strategies and have a mature production chain. Meanwhile, it is also responsible for environment, customers and the whole society. All these strengths can be the evidence for investors to decide whether to invest in it. However, McDonald's also faces many challenges. There are high threat level of new entrants and substitutes in the fast-food market. Besides, KFC and other existing competitors also press high pressure on McDonald's. Nevertheless, these challenges can be overcome if McDonald's can keep its existing complete strategies and do some innovations. Generally speaking, comparing the strengths and weaknesses of

McDonald's, it is feasible to invest in McDonald's, this paper can provide some references for the investors who want to invest in McDonald's.

### **AUTHORS' CONTRIBUTIONS**

This paper is independently completed by Yupu Sun.

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