

MBAD 822- Marketing

Group Assignment 3

The case regarding McDonald's



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SOLEMN DECLARATION - GROUP ASSIGNMENT

Solemn declaration by students

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We hereby declare that the assignment which we herewith submit to the North-West University as partial completion of the requirements set for the MBA degree, is our own work.

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1. Introduction

McDonald's is a world famous fast-food restaurant that has more than 36 000 (as at January 2018) restaurants worldwide. These restaurants serve 69 million people every day in over 100 countries (Rosenberg, 2019).

Each McDonald's also adapts it where it is situated and buys all their products locally. This makes some of their products only available in some countries, for example in Japan they serve a pork patty teriyaki burger or chocolate-drizzled fries, for their French customers they have a caramel banana shake (Rosenberg, 2019).

But even due to this they are not the largest fast-food chain, they are second to Subway which is available in 112 countries and has 43 985 stores at the start of 2018. The third largest fast-food chain is KFC with 20 500 locations in 125 countries (Rosenberg, 2019).

In the rest of this document the historic timeline followed by some success and failures of McDonalds, the key success that made McDonald's a success, attacks they have received and how they retaliated, their segmentation and targeting strategy and the buying power will be discussed.

2. Historical timeline (Q1)

Below a historic timeline is shown of all the historic events that lead to the McDonald's as it is known today.





Figure 1: McDonald's historic timeline

Source: (Carnette, 2014; Franchise Direct, 2015; Johnson, 2016; Lewis, 2019; McDonalds, 2019; Peterson, 2015)

2.1 Successes

During the years McDonald's had many successes only a few will be discussed below.

Hamburger University – Founded in 1961 by Fred Turner a grill man at the time, later became the CEO. In the last 55 years 275 000 people graduated from the University which includes 40% of McDonald's senior leaders. The main focus of this University is to develop leaders, business growth, operations procedures and with special focus on service, quality and cleanliness that prepares their graduates for managerial position (Tomar, 2019).

Customer range – A key success factor of McDonald's is the fact that they have a wide variety of items that appeal to many different customers. For example, they have the Happy Meals that appeal to children, they have burgers, salads, breakfasts, chicken, beef and many more items to choose from. McDonald's also have different menus for different geographical locations. This makes them different as they appeal to a wide customer range (Thompson, 2017).

Experimentation – Even though failed food items are mentioned below as some of the biggest failures it also indicated that McDonald's is not afraid of experimentation or even failure. They will simply pull the product from the market and continue with its normal operations (Manosca, n.d.).

2.2 Failures

During the years McDonald's had many failures only a few will be discussed below.

Failed menu items – During the years there has been many failed food items internationally. Some of the items did not work due to customers not wanting the items or preparation time etc. Some of the most iconic failures were due to PR nightmares like the McAfrika being released during famines in Africa, McDLT environmentalists did not like the doubled amount of packaging and the "Super-Size Me" film that caused McDonald's to get rid of their super-size menu items (Ashe, 2018). All of these caused a decline in customers due to the bad press that went with these incidents.

McDonald's banned in some countries – Even though McDonald's can be found in 119 countries, the following countries have banded the restaurant; Bermuda, Iran,

Macedonia, Yemen, Montenegro, North Korea, Zimbabwe, Bolivia and Iceland. The reasons behind the different countries banning McDonald's range from economic crises to political conflict (Jones, 2018).

McDonald's disinvestment in Chipotle – In 1998 McDonald's made an investment in Chipotle that increased their locations from 14 to 500 in only seven years. McDonald's owned 90% of Chipotle's equity in 2005. In 2006 McDonald's sold their investment in Chipotle for \$1.5billion - worth \$18.5 billion in 2014. When the CEO was asked why they disinvested in Chipotle the reason was that it was a distraction and taking away from their core brand. Chipotle's sales grew more than 16% while McDonald's declined with 1% in 2014 (Peterson, 2015).

3. Key success factors (Q2)

McDonald's is one of the most notable brand names that have ever existed. They pioneered a complete original division for the food and beverage industry. McDonald's stand by and incorporate seven values in all their deeds. These values lead to major success and ultimately became their key success factors. This made them one of the biggest of all the fast-food industries to date. Below we look at core focus points that lead to their global success and six key success factors that were pinpointed.

3.1 Strategic focus in America and worldwide

The conglomerate views itself as an ever-changing and continuous learning entity. "Green and growing" is prevalent in important decisions always. The constant and necessitated shifting approaches to employees, customers and operations are constantly evaluated and improved with innovative methods to suit the needs of today (McDonald's, 2015a).

The brand is also dedicated to maintainable business practices and is resolute in conducting operations in such a matter that does not compromise the ability of future generations to live and produce sustainability (McDonald's, 2015a).

The modern-day business model is based on sustainable growth. Most of the McDonald Franchises are operated and owned by independent persons. These

independent business owners must adhere to the strict standards and protocols regarding food processes and the effective marketing of McDonald's. Remaining franchises are in the hands of the corporation and are used as test sites where the corporate company can stay in touch with the consumer and ascertain different and new needs (Dudovskiy, 2016d)

3.2 Operational streamlining and functional progress

Every single and smallest operation is structured to put the customer always first. They believe and acknowledge that the customer is the reason for the company's existence. The McDonald's operational system serves to attain outstanding quality, service, and value for every customer every time employing continuous improvement. The brand focuses heavily on clinically perfecting and streamlining their operations and setting up the best possible operational configuration (McDonald's, 2015a).

Honesty, fairness, and Integrity are the characteristics the company strives for. With these notions as a backbone mandate the company feels that every individual is accountable for his or her actions but as a collective must also be held liable (McDonald's, 2015a).

Locations of any new stores are selected with great care and are scrutinized beforehand to choose the ultimate location for maximum market exposure and sustained feasibility. Stores are vast and numerous and can be found in any major metropolitan area. This means the products are easily available to the consumer (McDonald's, 2015a).

Part of McDonald's operational strategy from early on until today was to decrease menu size and rather focus on effectivity. From the first inaugural McDonald's the production system is maneuverer comparable to a conveyer belt. This system was inspired by Henry Ford's car conveyer belt initiative and absorbed by the brothers in the creation of McDonald's (YouTube, 2013).

3.3 Marketing strategies and popularity

The look and feel of McDonald's is marketing gold. The company is deeply integrated as a symbol of Americanism in The United States today, the big golden arches oozes familiarity and consistency. The McDonald brand is so well positioned that it is instantly recognizable around the world. Global economics has even coined an economic concept the Burger Index after the chain because of the global footprint that it has worldwide (Segal, 2019).

McDonald's has an immense market share around the world. Due to this brand vast popularity it is immensely valuable and with this value, a host of good things prevail, prospective franchisees flock to gain the opportunity and consumer loyalty is extremely high, negotiating power with suppliers is very high and global expansion opportunities is always prevalent (Dudovskiy, 2016d).

An effective and unorthodox method of marketing used still by McDonald's is its involvement in communities and giving back to these communities. This has a double-pronged effect of social responsibility and good marketing (Dudovskiy, 2016a).

McDonald's marketing mix⁴ p's explained (Dudovskiy, 2016a):

- Product – a huge selection of edible items which include hamburgers, salads, dessert. Healthy and unhealthy options, this product offering caters for a vast array of patrons.
- Place - using an aggressive expansion strategy the fast-food conglomerate establishes new shops in unconventional locations. The aim is convenient access for customers.
- Price - Follows a cost leadership strategy, insanely cheap meals are available always.
- Promotion – Effective and online marketing. Promoting the brand and products by internet, television, word of mouth, community involvement.

3.4 Financial dominance and expansion.

Every store in every country of this chain is governed by a strong ethical sense and adherence to financial strategy. Ethical business is good business. They grow every business anywhere by the principals of profitability.

McDonald's bases its business strategy on the "three-legged stool" concept. This involves three different parties, their owners, operators (managers) and their suppliers. This unique concept focuses on the balance between the three parties. In terms of stakeholders, they are steered in such a way that they understand that the customer is the predominant key in wealth generation (McDonald's, 2015a).

High level of profitability, their profit margin is almost double that of market-related competitors, The Franchise uses continuous research and development to fight economic slowdown and jumpstart sales. McDonald's has a presence in over hundred and nineteen countries. This took great effort and monetary investment. Other fast-food super chains will take years to gain such reach and success (Dudovskiy, 2016d).

3.5 McDonald's People

The founder Ray Croc was pertinent in the expansion of the Brand that is McDonald's today. Though controversial, many believe that without him the brand would not be what it is today. His fortitude, motivation and general boldness can still be felt in the McDonald's core brand and practices they portray and leads to the success of the company to this day (Murphy, 2018).

McDonald's are committed to their employees. They show us this by recognizing talent timely and then providing opportunities to grow future leaders. Investing in diversified teams in conjunction with an environment of respect and ultimate engagement attracts talented individuals. Supporting their staff sufficiently, they enable them to serve customers proficiently with the necessary tools and skills. Success sprites from empowering their employees to do the best they can (McDonald's, 2015a).

3.6 Unique adaptability and economy of scale

McDonald's take local tastes and preferences into account. With their vast resources the company can offer prices that other fast food stores can't. Low-cost prices make the customers return to the stores for their increased spending power. True to its nature McDonald's serves their meals fast and with the same quality a patron expects. Everywhere it tastes the same, their meals are universally known for being consistent (Dudovskiy, 2016b).

Fast-food chains have standardized menus generally with product offerings that change when necessary. An example, happy meals for kids was introduced and so also breakfasts to the McDonald's menu to target and gains more market shares, new clients. Whole new product ranges were also created, example, McNuggets in the eighties. McDonald's has the power, resources and manoeuvrability to adapt quickly to changing trends and flourish (Thompson, 2017)

3.7 Conclusion

McDonald's stems from a genuine American initiative that was supported, perpetuated by hard work and resilience. The conglomerate persevered through multiple difficult stages and in the end, became a giant in the food industry with vast resources and pivotal attraction. Their success is due to tried and tested strategies, unique success factors, and modern-day success factors.

4. Public attacks and McDonald's retaliation (Q3)

The biggest restaurant fast-food chain has gone through war, cultural changes, droughts, and food trend spikes. They have been the target of multiple documentaries, condemning papers and government legislative changes. Despite the continual attacks about their allegedly unhealthy food McDonald's has also been attacked for the way they treat and pay their staff. Below we look at attacks against McDonald's over the past decade and how they reacted and maybe should have acted.

4.1 Attacks

4.1.1 Early attacks on McDonald's

1990 - The company announced that they would cook their chips in vegetable oil and not beef fat. Vegetarians' and Hindus were outraged when it came to light that the chips contained beef flavouring (Chicago Tribune, 1990).

1992 - McDonald's coffee case- the coffee they serve is too hot. The Company was sued and in the news (Weiman, 20179).

2001 - Investigative journals Eric Schlosser wrote a book "Fast food nation". This book exposed practices in the meatpacking industry ad targeted McDonald predominantly. Shlosser state that the conglomerate is to blame for America's obesity pandemic (Schlosser, 2012).

Movies and documentaries have been made detrimentally portraying McDonald's the last decade on issues of upsizing and unhealthiness, the below figure summarizes attacks (Shortly).

Table 1: Attacks on McDonald's

Videol/article /movie	Description and information of the attack
Top 5 Disgusting Facts about McDonald's	The first detrimental fact in this video is that the french fries everybody knows and loves has close to nineteen ingredients in it. The Strawberry shake does contain any real strawberries McDonald's Marketing strategies have been called creepy. They have been said to not just sell food but also making life long customers out of kids using happy meals with toy (YouTube, 2017).
Super-size me Movie	In the documentary: Supersize me. A gentleman with the name Spurlock ate McDonald's for thirty days. The results were shocking. Though the participant felt and had real health issues by doing this challenge this social experiment changed the minds and habits of millions of people . Screened at the sundance film festival (YouTube, 2004).

Physicians committee Video	A video produced by the Physicians Committee outlined the dangers of too much fast food and shows a diseased man holding a fast-food burger and ends with the warnings that it causes high cholesterol, high blood pressure, and fatal heart attacks (YouTube, 2010).
Food incorporated Movie	In this documentary, they examine the colossal influence major American corporations have on all aspects of the food industry in the United States of America and the negative effects thereof. In this documentary, it can be seen that it is almost cheaper to buy a fast food meal in The United States of America than healthier alternatives. According to the movie. One in three Americans will have early onset of diabetes, among minorities the figure is one out of two (YouTube, 2016).
Fast food Facts website	Older website still online today, Hosts a tremendous amount of information about the fast food industry and spesifacally McDonald's. This Website and the reports it contains was damaging to the giant fast company becasue of the timing and the massas of detrimental information (Fast Food Facts, 2010).

4.2 Evaluate Retaliation and response

To change perceptions and alter the main stream thinking of negativity is no mere task. McDonald's disbursed a lot of effort and money to pivot the negative incentives spanning from the public. By altering their menus and implementing healthier options was the first step to retribution.

Supersizing meals use more materials, and with the number of sales in products, the effect of supersizing is also considerable on the environment. McDonald's partnered up with Environmental Defence Fund which helped the conglomerate cut its waste and expenditure on materials drastically (EDF, 2019).

Their websites, McDonald's (2015) aimed to educate their patrons by saying statements as the following: "It's important to keep nutrition in mind when enjoying

food. We want to help you make informed nutritional choices and serve you food you feel good about eating." (McDonald's, 2015b)

The company dedicated a page on the website to answer questions that consumers of the product might want to know about. These questions encompass cooking methods, ingredients and possible fillers (McDonald's, 2015b).

4.3 Render verdict

Yes, they did well.

McDonald's fundamentally changed its menu to sooth the naysayer. Adapting the menu for specific countries, not only a key success factor but a way of counteracting bad connotations connected to globalization and an alleged unhealthy menu (McGrath, n.d.).

Furthermore, they partnered with environmental agencies and government agencies to cut waste and provide accurate nutritional information to persons interested. They consciously took on allegations against them and condemned them outright. Even on their website, they spent time, effort and money to answer certain questions patrons may have. McDonald's attempted to be more transparent in their operations.

The company invests comprehensively in Ronald McDonald House Charities. This charity pays for families with sick children to lodge near their treatment centres or hospitals. This has a huge effect of the hearts and minds of the public (Charities, n.d.).

Examples of change are prevalent. In the nineties we saw the company focus on the health conscious clients and they introduced the McLean deluxe. It did not have great success though. After super-size me documentary was shown for the first time, McDonald's pulled it option of super-size me in its stores for a period. This action was to react to the movie and the bad influence. They also introduced happy meals which was called Go active happy meals. The meal consisted of a premium salad, bottled water and pedometer

There is signs that the company put in effort to counteract the bad press. All factors analysed, it seems that the company did well because they are still going strong today in their expansion.

4.4 Advice

Listed below are a few key points the franchise can consider when dealing with attacks.

- McDonald's marketing strategy must focus on and stress the good points and activities of the company. In other word redirect attention.
- Consciously make an effort to address the situation in every country or arena in time.
- Listen with denotation and timely face issues. Slowed responses makes more damage than good
- Use its considerable resources to purchase and gain healthy companies to join the fold. Research and development, introduce and innovate healthier options.
- Change the narrative about their food, give consumers more choices about options, and thereby educate their consumers to choose wisely. There are unhealthy and healthy options
- Change the target audience or target market, for instance, 24/7 McDonald's cater to different market segments. Changing the Market segment leads to new clients and undiscovered revenue.
- With the green phase becoming a global trend that changes individuals, restaurants, and cities in a blink of an eye, the brand must plan and act accordingly. Such new trends can be exploited and offer marketing new opportunities
- Stick with rules always and tell the truth, Tell the truth but with compassion and empathy.

5. Segmentation and targeting strategy (Q4)

McDonald's currently uses demographic, geographic and psychographic variables as their segmentation strategy. McDonald's also adapted their targeting strategy to rather cater to the customer's needs (Bhasin, 2018b).

What makes McDonald's different is that their brand management is not the same as other fast food companies. Where other fast food companies would have a "Big Mac" or "Salad" manager they have different customer segments for example Director of Young Adults, Moms, African Americans, Hispanics etc. (Smith, 2016; YouTube, 2013).

5.1 Segmentation strategies, advantages and disadvantages

The table below indicates McDonald's segmentation strategy compared to recommended segmentation strategies with both their advantages and disadvantages.

Table 2: Segmentation and targeting strategies

Segmentation and targeting strategies					
Current			Recommended		
Geographic	Region	US Domestic	Product	Healthy items	
		International		Meat items	
	Density	Urban		Vegetarian items	
		Rural		Breakfasts items	
Demographic	Age			McCafé items	
	Gender			Fast meals items	
	Life-cycle stage	Bachelor	Family orientation	Single	
		Married		Small families/friends	
		Full Nest		Large families/friends	
	Income			Students	
	Occupation			Kids	
Behaviour	Degree of loyalty		Convenience	Drive-thru customers	
	Benefits sought			Walk-in customers	
	Personality			Sit down customers	
	User status			McCafé customers	
Psychographic	Social Class			Parties - kids	
	Lifestyle			Online customers	

Source: (Dudovskiy, 2016c)

Table 3: Advantages of the different strategies

Advantages			
Current		Recommended	
Geographic	Helps to identify the differences of different cultures internationally	Product	Tailor products to meet customer demands, creating product differentiation
	Determine what are the requirements within a defined geographical location		Easier to develop products to meet customer requirements through focus groups and sales
	Can help to identify the socio-economic status within a given area of operation		Determine what products supply value to customers and which products don't
	Can help to identify different lifestyles within an urban environment		Product segmentation prevents the market dilution to cater to multiple segments in the market
Demographic	Due to the availability of data, this segmentation is easy to apply		Products can be tweaked to meet demographic requirements, without altering the complete product
	In-store profiling can be done to assist in the process	Family orientation	Knowing your market can help personalize the marketing
	The data is simple to understand, thus making it easier to use the data in a marketing plan		Knowing the orientation can help to target specific products that will adhere to the specific groups needs
	Can help identify trends within a certain demographic range		Knowing the customer segment helps the development of products to suit their needs
Behaviour	Good segmentation for a competitive environment		Helps to develop retention strategies to get the customer segments to return to the store
	Considers loyalty of customers and usage rates of customers		Creates better market targeting capabilities and determine new venture opportunities easier
	Ideal segmentation for testing products	Convenience	By delivering on customer requirements can supply one with a competitive advantage
	Easier to target a market that shares the same behaviour, as it could have a greater effect on them		Deliver a service that is required by multiple segments to draw in customers
Psychographic	Supplies a clearer insight into who the consumer is as a person		Help to develop target specific segmentation marketing
	Can identify the needs easier as a better understanding of the consumer is achieved		Build a better path to purchase preference through the customers behavioural patterns
	Can help to better drive promotional campaigning		Help identify means to simplify the process of receiving a meal quickly or ensure quality service to sitting customers

Source: (Anon, 2012; Anon, 2019; Barker, 2018; Dontigney, 2019; Fripp, n.d.; Kinsey, 2019; Parikh, 2018; Thibodeaux, 2019; Walker, 2019)

Table 4: Disadvantages of the different strategies

Disadvantages			
Current		Recommended	
Geographic	Makes the assumption that all the customers in a geographical area are similar	Product	Customer requirement data needs to be updated regularly to stay on par with customer demands
	Requires additional segmentation groups to be useful		If the data is misinterpreted, the target market could be missed or drive customers away
Demographic	It can be difficult to obtain data from a given population when there is a lack of participation	Product	To market the product, demographic information is required to ensure the biggest impact is achieved
	It is only descriptive data and doesn't take the person into consideration		Due to constant customization requirements to stay in tune with customer needs, it tends to be an expensive exercise
	Generalizes the needs of consumers, which isn't the case as all people differ	Family orientation	It is only descriptive data and doesn't take the person into consideration
	Due to customer migration, the data on this segment needs to be updated regularly		Generalizes the needs of consumers, which isn't the case as all people differ
Behaviour	Doesn't take into consideration why consumers consume a given product	Convenience	Misinterpreted data could lead to alienating the target market
	Relies heavily on detailed market analysis		Consumer behaviour towards conveniences can change rapidly
	Requires multiple marketing models and market testing		Not always an easy segment to analyse and track
Psychographic	Requires expensive market research that relies on qualitative and quantitative research	Convenience	Due to multiple attitudes of customers, it is possible to lose some effectiveness in replicability of service
	Qualitative results could be interpreted wrongly by the researchers		By focusing only on convenience and benefits may cause the firm to lack in innovation
	Not an easy segment to gather data on		Can become heavily product focused

Source: (Anon, 2019; Barker, 2018; Bhasin, 2018a; Fripp, n.d.; Kinsey, 2019; Kokemuller, n.d.; Thibodeaux, 2019; Walker, 2019)

5.2 Recommendation

After the advantages and disadvantages of their current strategies and the recommended strategy were reviewed, it is suggested that McDonald's stay with their current strategy.

The reason being that both segmentation strategies have advantages and disadvantages but one major advantage their current strategy have is that it is very unique to them. As mentioned earlier that they are different to other companies regarding their segmentation and targeting strategy from the top where they have different directors for different consumers and not products like other fast food companies (Smith, 2016).

6. Buying power (McDonald's index) (Q5)

Economist have designed an alternative method to determine the Purchasing Power Parity (PPP) of a given country, by using a Big Mac to determine if a country's currency is over or undervalued, in accordance to an identical basket of goods and services, in multiple countries (van der Merwe, 2018; Writer, 2019).

The Big Mac was identified as the yard stick, as it is a popular fast food item that is widely available internationally. It is also fairly consistent with its pricing throughout the years, but it should be noted that it can't be seen as an exact science of determining a country's currency misalignment. It was however developed to make it easier for non-economists to understand the exchange-rate theory (van der Merwe, 2018; Writer, 2019).

The method used to determine the value of a country's currency is by applying two methods, of which the second method was only introduced in 2018 (Writer, 2019). The first method is to determine how much it would cost the given country to make a Big Mac. Thus, with raw data, it would cost the South African economy R 31.00 to make one Big Mac, compared to the US\$ 5.58 in the United States (van der Merwe, 2018; Writer, 2019). By dividing the R 31.00 with the \$5.58, it can be stated that the exchange rate is to be R5.56 to the US dollar (van der Merwe, 2018; Writer, 2019). Taking in to consideration that the Rand exchange rate to the dollar, on the 18th of September 2019, was R 14.65/\$ (Nedbank, 2019). This states that the ZAR is

undervalued by 62.05%. This is illustrated by figure 2 below (Writer, 2019). Figure 3 illustrates the exchange rate for the ZAR against the US\$ from 2000 until 2019.

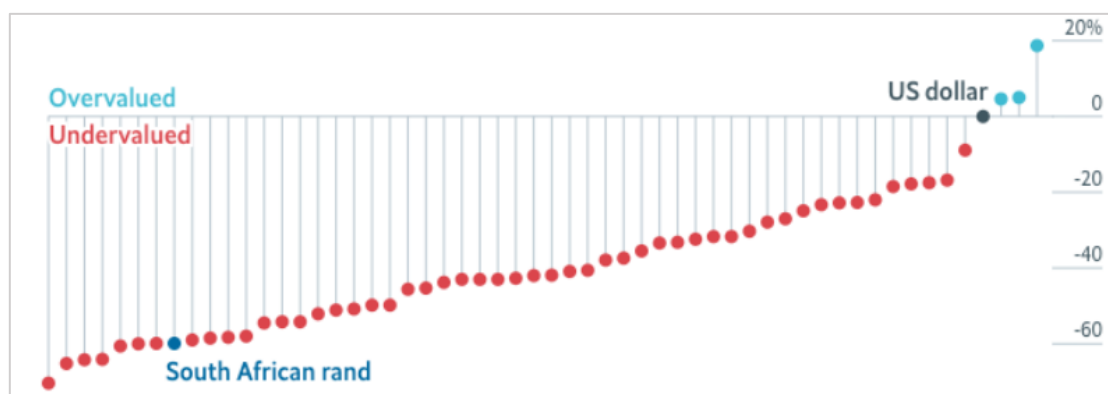


Figure 2 - First method illustration of ZAR currency value against the US\$

Source: (Writer, 2019)



Figure 3 – First method trend line for undervalued ZAR from 2000 to 2019

Source: (Writer, 2019)

The second method came to life after many argued that the PPP of poorer countries are cheaper than those in richer ones, thus it will be cheaper to produce a Big Mac in a poorer country, compared to a rich one. Therefore, an adjusted price index was created in 2018 to take this in to its calculation. The factor used was the GDP per capita, as it gave a better assumption to the currency value (van der Merwe, 2018; Writer, 2019).

By taking this method into calculation, looking at the South African PPP, it can be stated that it is 60% cheaper to make a Big Mac in South Africa, compared to the USA. If the market exchange rate is taken into consideration, it would cost South Africa 2.12 US\$ to make a Big Mac, compared to the 5.58 US\$ in the USA. Now taking the GDP per person into consideration, a Big Mac will cost 45% less in South

Africa, compared to the 60% stated above. This then states that the Rand is still undervalued, but only 26.9% (Writer, 2019). Thus, the rand will be undervalued, but at R 10.14/\$. This is illustrated by figure 4 below. Figure 5 illustrates the exchange rate for the ZAR against the US\$ from 2000 until 2019 (Writer, 2019).

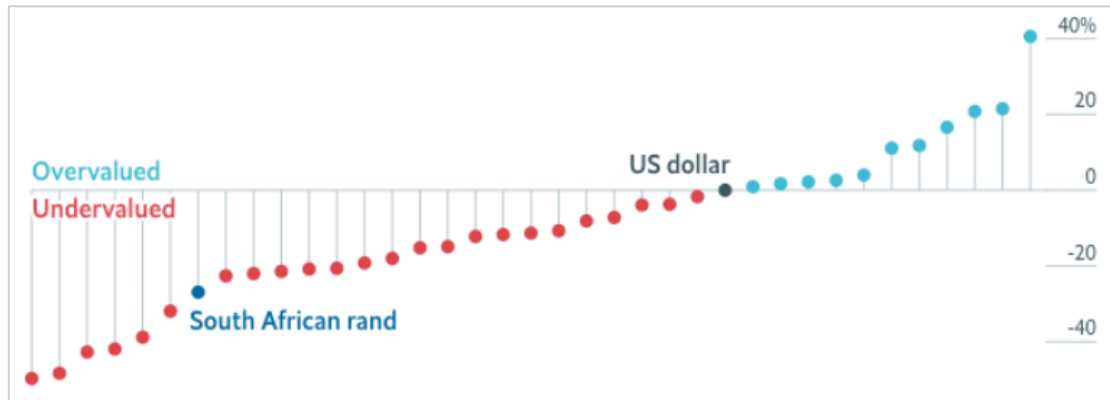


Figure 4 - Second method illustration of ZAR currency value against the US\$

Source: (Writer, 2019)

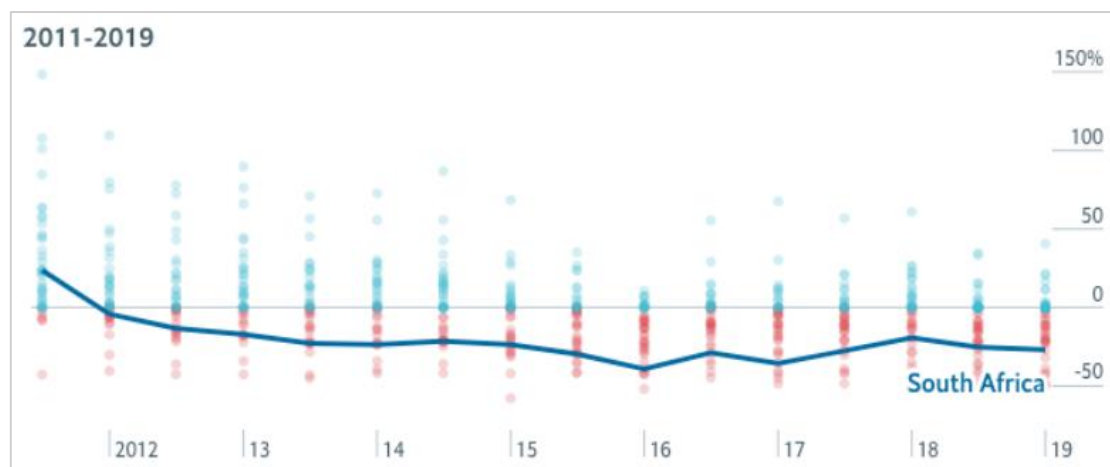


Figure 5 - Second method trend line for undervalued ZAR from 2011 to 2019

Source: (Writer, 2019)

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