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McDonald’s Case Audit

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McDonald's is of the most recognized brands within the fast-food industry giving it a leg up amongst its rivals. However, with growing forces in the macro and competitive environment, the fast-food industry, specifically McDonald's may need to rethink strategy. Upon analyzing the macro-environment it was determined that as an overall force, the macro-environment has a medium to high effect on the fast-food industry (Table 1). Political factors have a high impact on the industry as globally there has been an increase in the implementation of health laws, labor laws, and other business regulations. Economic factors also have a high impact on the industry; growth in developing markets is opening up new business opportunities for businesses while tax rates, unemployment rates, and severance pay have all increased. Although a country could have a developing market, the unemployment rate, severance pay, or tax rates in that country may be high, which will affect a company's chances of entering that market.

Social factors have a medium impact on the industry as disposable incomes have been increasing which leaves consumers to resort to more expensive fast-food options. There has been a major movement following health trends that presents a challenge to the fast-food industry given that a majority of competitors offer little to no healthier menu options. Depending on the country, work lifestyles affect fast food and the fast-food industry; for example, the United States is highly work-oriented which leaves consumers with less time to eat so fast-food is usually a meal resort. Technological factors have a high impact on the industry as technology is rapidly developing around the world. This presents opportunities for companies to incorporate AI into business and companies need to ensure that they have up-to-date technology that can be employed correctly if they would like to do well against their rivals. It also has led to an increase in mobile sales and online ordering; if companies would like to succeed they must have several ways to order as well as ways to be contacted.

Legal factors have a high impact on the industry; labor laws, health regulations, and animal regulations can provide a challenge to businesses entering certain countries. For example, the United States has had a recent shift in animal regulation laws as well as health laws, especially during a pandemic. If a company would like to enter the US market these factors may provide a high amount of additional costs. Globally there has been a demand for ethical labor practices amongst companies; this may be costly to companies entering countries that have had a wage increase. Environmental factors have a medium impact on the industry; the push for a sustainable business practice has significantly increased which leaves some consumers to purchase from those sustainable companies over traditional companies. Climate change is a global issue causing hundreds of fires around the world; this will affect where a company can set up shop as well as what global suppliers they choose. There has also been an increase in environmental laws and protection which poses a challenge to the fast-food industry. Companies could be charged a tax for the pollution emitted from any of their facilities (depending on the country) or they may be required to meet certain environmental business practices.

When examining the overall competitive environment for the fast-food industry it was found to be high (Table 2). Buyer power within the industry is high as there are very low switching costs and the buyer has a large number of substitutes to choose from. The buyer is also well educated on pricing as they have easy access to information on all competitors which makes switching less work. The threat of substitution is also high as there are several substitutes, some even cheaper than others. Consumers once again have very low switching costs between substitutes and often substitute products can compare with quality as well as customer satisfaction. Supplier power is low as there are a large number of suppliers (on all levels) as well as substitutes which presents low switching costs for fast-food companies. The threat of new entrants is moderate as there is a high cost for brand development and capital investment. There is a highly intensive price competition within the industry so new entrants must be able to compare with their rivals. There are also several well-known/ established competitors with high consumer loyalty which might make the success of a new entrant challenging. The competitive rivalry within the industry is high as it has become a saturated market with only a small number of direct competitors that face very strong competition.

Some key success factors within the fast food industry include the convenience of locations, food quality, clear/ consistent advertising, consistency of food, high speed, the innovation of food, good brand reputation, and low costs. Some industry drivers of change in the fast-food industry include globalization, growth of fast-casual restaurants, demand for company transparency, health trends, and an all-in-one experience. Globalization means fast food companies need to have employees at all locations and depending on the country there might be high labor costs. With the growth of fast-casual restaurants, consumers are willing to pay more for a better dining experience that still has affordable food. As more consumers are increasing their demands for a transparent supply chain some companies might not be able to do so or to avoid losing consumers may have to switch to more expensive labor options. Health trends have caused consumers to look for healthier options at cheaper prices, but often companies within the fast-food industry lack diversity in healthier menu options. Now consumers want to go to a fast-food restaurant and have a wide selection of food as well as beverages; those companies that do not offer a wide selection of beverages may need to expand or they may lose customers.

Out of the factors listed above, the convenience of location, clear advertising, high speed, the demand for an all-in-one experience, and low costs have the greatest impact on McDonald's ability to sustain a competitive advantage. McDonald's is known globally for the convenience of its locations; most with late hours or open all day. McDonald's has branded itself extremely well as any time someone sees the yellow M or hears "I'm Lovin It" they will automatically think of McDonald's. McDonald's can provide such high speed as it derives more than 65 percent of its revenue through its drive-thrus. McDonald's, going beyond the traditional service of soda selections was able to expand into a McCafe line that offers specialty coffee drinks. McDonald's puts a heavy emphasis on its low costs; they offer a variety of combo deals to save consumers money.

McDonald's both owns as well as operates its restaurants and franchises them to others however the large majority of locations are franchised. McDonald's offers three types of franchise ownership structures: conventional franchise, developmental license, and affiliates. The conventional franchise typically allows the company to own the land and building and then they lease the location to the franchisee. The franchisee pays for store materials such as equipment, signs, seating, and decorations, as well as rent and royalties based on a percentage of sales, and this franchisee lease, usually lasts for 20 years. Under a developmental license, McDonald's contributes no capital; the company has to receive a royalty based on the sale. This license is usually given to larger companies that can develop in a specific global or regional market. Under the affiliate structure, McDonald's owns equity in a foreign entity and can earn a royalty based on sales and the largest affiliate for McDonald's in Japan with over 3,000 restaurants.

Some of McDonald's core competencies include a brand image, fast service, and one of the best supply chains in the world. McDonald's distinctive quality is its brand image as well as brand awareness. When performing a VRIN test on McDonald's core competencies (Table 3) it was found that for the brand image it is very valuable. This is very rare because no other company has a logo like theirs and it is inimitable by competitors; the two golden arches are distinct to McDonald's which makes it non-substitutable. The fast service offered by McDonald's is very valuable, especially to a fast-food company however it is not rare and it is easy to imitate as well as substitutable. Given that the case claimed McDonald's to have one of the best supply chains in the world, that is very valuable to the company and it is somewhat rare to come across when looking at larger companies. It can be imitated and there is a threat for substitution as the demand for sustainable practices within the business has significantly increased.

When evaluating McDonald's strengths it was noted that they have a very strong brand awareness across the world and have a large number of loyal consumers. McDonald's has also implemented technology to help increase customer satisfaction; this was done through the use of kiosks as well as increased mobile ordering and pickup options. McDonald's also has a global diversity in food depending on what country the McDonald's is in. McDonald's also has several weaknesses that include very low employee satisfaction as well as previous legal scandals. McDonald's also has a lack of product diversification within stores; there are very little menu innovation and little to no healthier food options as well as minimal diversity offered in seasonal products.

McDonald’s is presented with the opportunity to further expand or get their brand into developing markets as it's a way to lower costs. McDonald’s should also work to further its product diversification as well as offer more innovative food products. Despite McDonald’s having mobile ordering as well as delivery set up in a majority of stores, they should take the opportunity to expand it to all physical locations. McDonald’s is also facing threats such as growing competition from rivals as well as a shift in labor and laws/ wages which can drastically increase their production and labor costs. There is also a shift towards a health-conscious lifestyle and McDonald’s as well as other fast-food competitors offer very little diversification in these products. There has also been an increase in animal regulations/ laws which might make it more challenging for these restaurants to get access to large quantities of meat for a low cost. COVID also has a drastic effect on the industry as more individuals have become cautious of leaving their houses unless necessary and there have been laws implemented about restaurant hours, capacities, and business practices.

When comparing McDonald’s against its rivals (Table 5) it was observed that McDonald’s had an overall competitive strength when measuring key success factors amongst rivals. McDonald’s has more locations than its rivals so, therefore, it scored higher in that category, however, the food quality as compared to Wendy’s is lower so it scored lower in that category. The speed was amongst the highest at McDonald’s therefore it scored the highest in that category while it's branding also scored the highest, right above Wendy’s and Taco Bell. It was determined that McDonald's has the highest competitive strength with Wendy's second, Burger King third, and Taco Bell as last.

McDonald's key strategy is to focus on customer satisfaction, being a leader at low costs, and further expanding its market. McDonald's places a high emphasis on customer satisfaction through the speed, convenience, use of technology in ordering and production, and quality of their products. They aim to be a leader at low costs by offering several different combo meals and even kids' meals. McDonald's is already a global leader in marketing however they are looking to expand their presence into newer developing and emerging markets. These strategies have changed minorly from the ones listed by the prior CEO in 2015.

In 2015 the company set out to "reset and rebuild the business" (3) using three priorities: driving operational growth, returning the brand excitement, and unlocking financial value. McDonald's worked to re-shape interactions with customers whether they eat in, take out, use a drive-thru, or order delivery. They also focused on delivery and bringing the "McDonalds experience" (4) to more consumers despite their location. They also focused on "experience of the future in the United States" (4) where they worked to raise the customer experience in restaurants through the implementation of technology as well as the training and hiring of the staff who provide the final touch of customer service.

Upon analyzing McDonald's financial trends and performance (Table 6) the following were calculated: gross profit margin, return on assets, and net profit margin. The gross profit margin was 47.09% which is on the higher side and means McDonald's management team was able to successfully develop revenue given the production costs of their products. Typically when a company has a ROA that over 5% it is considered good and McDonald's had a 15.10% return.

This means that a company's management staff/ team is efficient at using its assets to bring in earnings. The net profit margin for McDonald's was 19.03% which indicates that McDonald's management team is efficient in controlling the costs that allow them to price their products much higher than the product's cost.

A key strategic issue McDonald's faces is a result of their further expanded menu; it helps to draw more customers however with so many items it often slows down orders which increases employee stress as well as customer frustration. Another issue is that customers now want their food delivered, especially during a pandemic, and although McDonald's implemented this at a majority of stores, they still have not implemented it at every store. Another issue McDonald's should address is their product quality reputation; in the past, there have been several articles, videos, shows, etc. on the poor product quality of their food and where it comes from. McDonald's also has staffing issues; as mentioned in the article an internal report showed "that one out of every five customer complaints was about 'rude or unprofessional' employees" (11).

Going forward McDonald's needs to take urgent steps to fix complaints about employees as customer satisfaction is the main concern for most consumers. To do so, McDonald's could set up a department that deals solely with customer complaints about employees; meaning they follow up with the employee and investigate the incident and if the employee was in the wrong, possibly terminate that employee. McDonald's could also hold weekly or monthly meetings with their employees to go over proper behaviors in the workplace and how to effectively deal with customers. McDonald's could also require that employees go through a short couple hour certification to become an employee in which they learn about company policies and expectations.

Tables

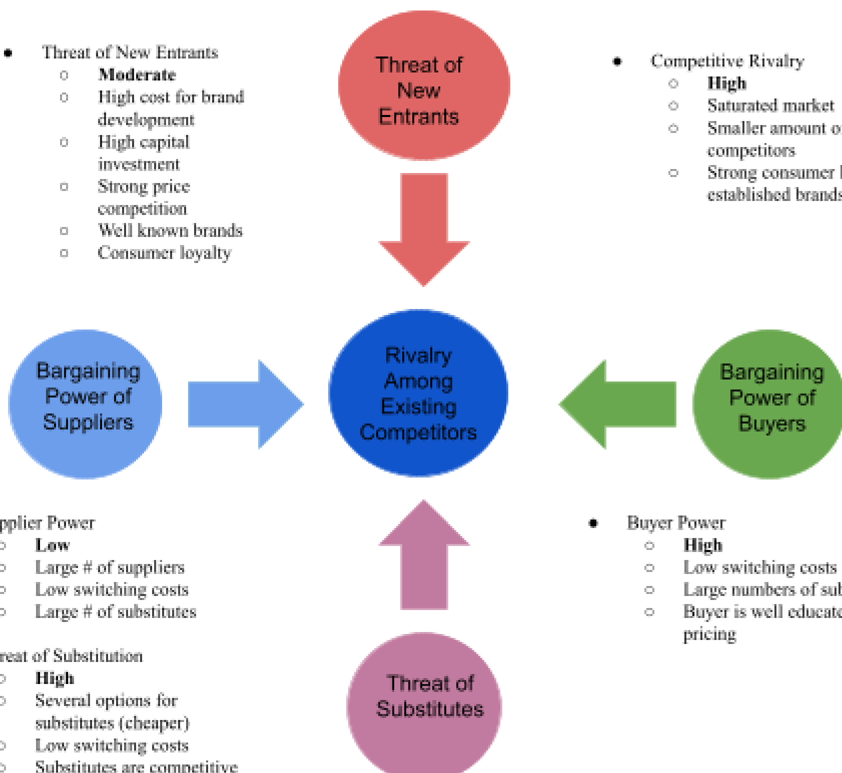
Table 1

P Political	E Economic	S Social	T Technological	L Legal	E Environmental
• **High** • Implementation of more health laws • Labor Laws • Business Regulations	• **High** • Growth in Developing Markets • Tax Rates • Unemployment Rates • Severance pay	• **Medium** • Increasing Disposable Incomes • Health trends • Work Lifestyles	• **High** • Rapid development • Opportunity to incorporate AI • Increase in mobile/ online sales	• **High** • Labor Laws • Increase in animal regulations • Increase in Health Regulations	• **Medium** • Climate change • Increasing Environmental Laws/Protection • Sustainable business practices

Table 2

- Threat of New Entrants
  - **Moderate**
  - High cost for brand development
  - High capital investment
  - Strong price competition
  - Well known brands
  - Consumer loyalty

- Competitive Rivalry
  - **High**
  - Saturated market
  - Smaller amount of direct competitors
  - Strong consumer loyalty to established brands



- Supplier Power
  - **Low**
  - Large # of suppliers
  - Low switching costs
  - Large # of substitutes

- Buyer Power
  - **High**
  - Low switching costs
  - Large numbers of substitutes
  - Buyer is well educated in pricing

- Threat of Substitution
  - **High**
  - Several options for substitutes (cheaper)
  - Low switching costs
  - Substitutes are competitive with quality & customer satisfaction

Table 3

	Brand Image	**Fast Service**	**Supply Chain**
Valuable	Very Valuable	Very Valuable	Very Valuable
Rare	Very Rare	No	Somewhat Rare
Inimitable	Not Inimitable	Yes	Yes
Non-substitutable	Non-Substitutable	Subtitutable	Substitutable

Table 4

STRENGTHS	WEAKNESSES
• Strong Brand Awareness/ Image • Large Global Presence • Large num. of loyal Customers • Use of technological initiatives • Global Diversity in food based on market	• Very low employee satisfaction • Previous HR and legal scandals • Lack of product diversification • Little to no organic/ healthier food options • No diversity in offered seasonal products
OPPORTUNITIES	**THREATS**
• Expand into developing markets • Offer further product diversification • Mobile Orders/ Delivery • Offer more innovative food products	• Strong competition from rivals • Shift in labor laws and wages • Health Conscious Lifestyle • Increasing animal regulations/laws • COVID

Table 5

		McDonalds	Burger King	Wendys	Taco Bell
KSF Strength/ Measure	Importance Weight				
Location	.2	9x.2 = 1.8	8x.2 = 1.6	6x.2= 1.2	5x.2=1
Food Quality	.2	7x.2=1.4	7x.2=1.4	9x1.2=1.8	5x.2=1
High Speed	.3	8x.3=2.4	6x.3=1.8	7x.3=2.1	7x.3=2.1
Branding	.3	10x.3=3	8x.3=2.4	9x.3=2.7	9x.3=2.7
Total	1	8.6	7.2	7.8	6.8

Table 6

Ratio	Calculation
Gross Profit Margin	24,622 - 13,027 --------------------x100 = 47.09% 24,622
Return on Assets	4,687 --------x100=15.10% 31,024
Net Profit Margin	4,687 ---------x100 = 19.03% 24,622