

Research on McDonald's Business Strategy in China

Yifei Xu^{1,a,*}

¹Leeds Business School, University of Leeds, Leeds, LS2 8JP, United Kingdom

a. evy00000000@gmail.com

*corresponding author

Abstract: People's pace of life is accelerating due to advances in science and technology as well as rising economic standards. In such a fast era, people need to get delicious and nutritious food in a short time. There are many fast food products that have found this business opportunity. McDonald's has been able to capture the hearts and minds of Chinese consumers and has been able to dominate the fast food industry in China despite numerous reported shortcomings, which is because it has an excellent business strategy. This research will therefore analyse McDonald's business strategy through a SWOT analysis and marketing mix with the aim of discussing how McDonald's has achieved such success and analysing areas where it needs to improve in order to promote the development of the fast food industry as a whole.

Keywords: McDonald's, business, marketing, SWOT analysis

1. Introduction

McDonald's is a large global multinational restaurant chain and as of 2018, McDonald's has almost 30,000 stores globally, making it the most lucrative restaurant industry. Fast food items including burgers, fries, fried chicken, and beverages are what it mostly sells [1]. With more than 30,000 locations across 126 countries, McDonald's is one of the biggest, most well known, and most successful franchises in the world. The company is also growing at an impressive rate of one location every three hours, making it the largest fast food chain in the world. McDonald's intends to establish 1,900 new outlets in China by 2023, the country's second largest market after the United States [2]. Nearly half of these shops will be located in China [3]. This indicates an exceptionally profitable environment for McDonald's in the Chinese fast food industry, a success that cannot be achieved without McDonald's excellent business strategy and well developed business operations.

So far, it has been analysed from the perspective of advertising and marketing strategies through the literature survey method, but not from the perspective of SWOT analysis and marketing mix analysis to study the marketing model of McDonald's in China.

2. McDonald's Background

After their movie business failed, Dick and Mac McDonald found success operating drop off free eateries. They took a chance in 1948 when they streamlined their business practises and launched the Speedee service model with 15 cent hamburgers [4]. After their movie business failed, Dick and Mac McDonald found success operating drop off free eateries.

In 1954, Ray Kroc became the franchise agent for McDonald's, developing it into a nationally expanding chain. He envisaged expanding McDonald's food offerings to more than 1,000 fast food restaurants in the United States alone [5]. Ray Kroc had a significant part in building McDonald's business plan to accomplish this accomplishment and go beyond because he saw the need of developing a strong brand identity and making sure McDonald's focused on quality, convenience, and value. In the Shenzhen Special Economic Zone, the first McDonald's restaurant in mainland China opened its doors in 1990. The largest McDonald's in the world finally opened its doors after two years on April 23 in Beijing. It has 700 seats, 29 cash registers, and served more than 40,000 customers on opening day [6]. This shows that McDonald's was very popular in China in those days. Today, McDonald's has continuously improved its business strategy in China with unique marketing to Chinese consumers, including a deep understanding of Chinese culture, adapting to its unique business environment, and using successful strategies such as professional marketing services and customized menus as well as email marketing and outbound marketing to effectively reach and engage Chinese consumers. Apart from the obvious dominance of foreign brands in China, once represented by McDonald's, it is inseparable from its marketing strategies and business tactics that are different from other F&B companies at home and abroad.

3. SWOT Analysis

In the context of the distinct business climate of China, McDonald's has its own set of strengths and weaknesses, as well as specific possibilities and dangers, just like any other organisation on earth. Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis is a strategic analytical method for corporate rivalry that analyses internal (strengths and weaknesses), external (opportunities and threats), and possible crisis variables for rivals to achieve their goals. It provides McDonald's with an in depth analysis to help understand its external and internal threats and weaknesses.

3.1. Strengths

McDonald's has strong brand awareness, a market presence in over 100 countries, and stable overall revenues [7]. It has a certain number of loyal customers. It gives the company an independent identity in the food industry. When potential clients are seeking for local marketing solutions, brand awareness is crucial.

McDonald's supply chain is known as the 'three legged stool' and consists of suppliers, employees and franchisees. In this strategy, each 'leg' of the franchise relies heavily on the other for success [8].

It reduces costs and increases profits by vertically integrating the supply chain. It transports its own raw materials to food manufacturers for processing. The ingredients are received, stored for distribution, and only distributed to individual concessionaires on request. Thus, storage expenses and time are reduced. Furthermore, McDonald's does not have to deal with leases or landlords because it owns the property on which its restaurants are situated. Their supply chain is heavily in their hands.

McDonald's customer facing digital initiatives are working and achieving impressive results. For example, the launch of the McCafe app, which solves the problem of customers waiting in long queues for food during peak hours [9]. Customers may rapidly make their meals online before leaving and pick them up when they arrive at McDonald's thanks to the development of a self ordering digital platform, which greatly reduces waiting times.

3.2. Weaknesses

The most successful use of the global franchise concept is McDonald's. But the brand is exposed to some dangers due to this intricate web of franchised and company owned eateries. Risks include income instability, poor management, declining finances, and unsatisfied clients. The firm depends

largely on independently owned and controlled franchises; as a result, they have little control over daily performance, which has a negative impact on the brand.

Most Chinese follow the guidelines for healthy eating [10]. Despite the low prices to attract customers, they have many unhealthy options on their menu. For example, they have a lot of burgers and fries, which are high in calories and fat. However, they do not offer many healthy options to balance out those unhealthy choices.

The lack of protein and vegetables in the meals can cause people to feel hungry soon after eating at McDonald's, which can lead to obesity problems or worse, such as giving them food poisoning from eating undercooked meat or contaminated vegetables.

Currently there are only fast food options, mainly burgers, and while there is local customization for Chinese consumers, the menu options are still limited. McDonald's may be able to satisfy most customers in a short amount of time, but Chinese consumers may get tired after eating the same thing for a long time and opt to patronise alternative fast food establishments.

3.3. Opportunities

One of the biggest opportunities for McDonald's is the expansion of its brand in a country with a large population of over 1.3 billion people, where all economic development indicators are showing growth. This provides an excellent opportunity for McDonald's to expand, to open more outlets and to gain a satisfactory market share [11].

Now that we are entering the digital age, being able to adapt well to the times can bring more opportunities for McDonald's. The trend is to provide more personalised services and products through digital transformation, increasing consumer engagement and empowerment to gain more competitive advantage. In the digital age, big data, AI and social media are helping McDonald's to better serve its customers. McDonald's is able to analyse and collect information and feedback from customers through big data, which helps McDonald's to better develop and change its products to meet customer preferences. Social media is used to promote and attract more customers through better digital marketing.

Today's times are increasingly fast paced and life is becoming more and more entertaining. In many fast paced cities in China, people have less time to spend on eating, so if the nutritional value of McDonald's products can be improved, this type of nutritious fast food will become more and more popular in the future.

3.4. Threats

McDonald's is now a market leader in China's fast food sector, but owing to its limited product line, which mostly consists of fast food like burgers and fries, it is easily supplanted by businesses that provide comparable services and higher quality goods. There are currently many competitors in China such as KFC and Burger King, which have been improving their services in order to attract more customers from McDonald's.

Every company's life cycle is influenced by consumer trends. While others become outdated, those who learn to change with the times thrive. For a higher quality of life, more and more individuals are turning to clean and nutritious food nowadays. How long will fast food restaurants remain in business if more people start choosing healthier alternatives to junk food? Therefore, McDonald's should exercise extreme caution since in ten years, the actual demands of the brand and the market may alter greatly.

The future looks bright for McDonald's new efforts, but technology investments are risky. Rapid adoption of new technology may lower return on investment and underperform on promises of better customer experience.

4. 4P analysis

The marketing mix is another name for the four components that make up the 4P model: product, price, promotion, and location [12]. The McDonald's marketing mix enables and supports the accomplishment of its marketing goals while also having a favourable effect on its target audience. When promoting its goods and services, McDonald's often makes use of the marketing mix's aspects as well as brand building initiatives. These elements are critical for McDonald's to develop and formulate its marketing plans and marketing strategies especially for developing and maintaining a competitive advantage.

4.1. Products

McDonald's is essentially a food service business, and its product line comprises mostly of food and drink items. This part of the marketing mix deals with the organisational outputs—goods and services—that the business provides to its target markets. Staple meals like hamburgers and sandwiches, as well as alcoholic drinks like milkshakes and coffee, are the two primary categories of McDonald's product lines.

The brand and commercial reputation of McDonald's depend to a large extent on its products.

4.2. Price

The McDonald's marketing mix focuses on revenue and pricing strategies. Prices vary slightly from McDonald's restaurant to restaurant depending on a number of factors. Restaurants are allowed to choose their own price structures for restaurants depending on local market conditions, and prices for restaurants are determined using a demand based approach [13].

Franchisees must, however, provide their consumers with competitive, value driven rates, and the majority of franchisees largely use bundled pricing tactics and psychological pricing strategies to maximise margins and sales.

McDonald's sells bundles of packages and other items at reduced costs so customers won't have to purchase each item separately, which will boost immediate sales. Customers can choose to maximise the cost and value of the product by purchasing a Happy Meal or an Extra Value Meal, for instance.

This not only satisfies the customer's need for food and beverages, but also provides an incentive to spend by offering the product at a lower price.

In psychological pricing, companies use seemingly more affordable prices, for example, in China, a five piece snack set costs RMB 48.9 instead of rounding up to the nearest RMB, making the item seem cheaper to attract middle class families, teenagers and fast food loving students. Due to their apparent affordability, this price approach encourages customers to buy the company's food goods.

4.3. Place

Place and distribution marketing strategies in the McDonald's marketing mix include placing restaurants in strategic locations with heavy traffic, such as highways, schools, universities, train stations, shopping centres, etc., so that they can be visited by an increasing number of customers. The majority of the company's sales income is generated at McDonald's locations. Some of these eateries also have kiosks where a small selection of items, such as sundaes and other sweets, are sold. Additionally, McDonald's is active in mobile app development. Customers may get information about the company's food goods and make purchases through these online stores. Customers may, for instance, request special deals, locate participating McDonald's restaurants, make orders, and pay for those items using the company's iOS and Android mobile applications. Customers may also place orders online using takeout ordering systems like Meituan takeout.

The mobile application allows customers to place orders online through takeaway software such as Meituan.

4.4. Promotion

The company positions its brand as a restaurant chain that offers quality, value for money meals in a fun environment. The promotional strategy in McDonald's marketing mix focuses on its target market, where customer preferences are paramount. For decades, McDonald's has conducted extensive advertising and promotional campaigns to enhance its marketing communications with customers.

McDonald's has extensive advertising campaigns in each country, adapting their marketing plans to suit the wide range of cultural and other differences that each country must offer. Most of them take the form of television communication media and publicity in each outlet. Advertising in the media has been effective, such as an ink animation created in conjunction with the Shanghai Fine Arts Film Studio for the new Chinese year during the Chinese New Year period, promoting traditional Chinese culture while attracting customers [14].

McDonald's uses channels such as its website, app and social media to give consumers time to choose their own coupons. Examples include participating in sweepstakes and retweets under McDonald's social media accounts to earn coupons or small prizes, and in the app where consumers can redeem points for coupons. This will not only increase sales for McDonald's but also provide heat and publicity for McDonald's through active retweets by consumers.

5. Discussion

Food safety is an issue that most consumers are very concerned about. An undercover reporter from the Oriental News revealed Husi Food Processing in Shanghai, one of McDonald's food suppliers, for handling food with their bare hands and introducing "rotten meat" to the processing machine [15]. This led to McDonald's losing its reputation for food safety in China due to the improper application of its monitoring mechanisms, which could seriously undermine McDonald's growth in China.

Particularly in less developed nations and third or second world countries, McDonald's appears to lack ethical principles and violates the rights of its employees and coworkers. They appear to put in incredibly little labour, which lowers employee health rates and underpays workers, enriching the firm at the expense of the workers. These negative effects can have an impact on the image of McDonald's in the minds of Chinese customers and affect consumers' trust in McDonald's

6. Conclusion

We have recommended a number of actions and alternative tactics that the McDonald's Corporation in China may take in order to obtain a competitive edge in the Chinese market based on our thorough internal and external study of the firm. McDonald's needs to properly adapt to the requirements of the Chinese people by utilising its strengths and talents. McDonald's should make better use of its inventive capabilities to better meet the demands of the Chinese market. Despite the company's popularity, ease of recognition, high levels of customer satisfaction, strategic location, and good advertising methods, these advantages will be lessened if its core items are not sufficiently appealing to customers.

The business also enjoys a number of benefits, including a well known brand, good customer service and satisfaction, a selection of prime sites, and a successful marketing plan. If the business does not adapt to shifting consumer preferences and tastes, these advantages might be eliminated by the numerous advantages and positions held by its prospective competitors. Burgers are among its main offerings, thus McDonald's Corporation should work to raise the standards of flavour, quality, and cost for these items. Before introducing new menu options, a detailed examination of the

company's strengths, limitations, market dynamics, and external environmental variables should be done.

McDonald's should focus on the elder members of society who, like the younger generation, are looking for high quality, pleasant meals rather than only children and the younger age as its target market. More and more Chinese customers are prepared to spend a little bit more for this added quality as a result of China's rapid economic growth and growing ranking in the Human growth Index. McDonald's will be able to keep a significant competitive advantage over their rivals if they make this adjustment.

References

- [1] CNBC. (2023) *Why McDonald's Is Thriving in China*. www.cnbc.com/2023/why-mcdonalds-is-thriving-in-china/.
- [2] McDonald's. (2022). *About Us: McDonald's Story, Facts & Information*. www.mcdonalds.com/us/en-us/about-us.html.
- [3] Malls.com (2023) *McDonald's to open 1,900 restaurants, half of them in China*. <https://www.malls.com/news/news/mcdonalds-will-open-1-900-restaurants-half-of-them-in-china.shtml>
- [4] McDonald's. (2022). *McDonald's History*. <https://corporate.mcdonalds.com/corpmcd/our-company/who-we-are/our-history.html>
- [5] Britannica. (2023). *McDonald's*. <https://www.britannica.com/topic/McDonalds>
- [6] Wikipedia Contributors. (2019) *Fast Food in China*. https://en.wikipedia.org/wiki/Fast_food_in_China
- [7] Marketingweek. (2023). *McDonald's achieves 'exceptional' branding score with eyebrow raising ad*. <https://www.marketingweek.com/mcdonalds-exceptional-branding-system1/>
- [8] Box around the word. (2019). *McDonald's Supply Chain Management is The Secret to Their Success!* <https://boxaroundtheworld.com/mcdonalds-supply-chain-management/>
- [9] Allon, Gad, et al. (2011). *How Much Is a Reduction of Your Customers' Wait Worth? An Empirical Study of the Fast Food Drive thru Industry Based on Structural Estimation Methods.* *Manufacturing & Service Operations Management*, vol. 13, no. 4. 489–507.
- [10] Allon, G., Federgruen, A., & Pierson, M. (2011). *How Much Is a Reduction of Your Customers' Wait Worth? An Empirical Study of the Fast Food Drive Thru Industry Based on Structural Estimation Methods.* *Manufacturing & Service Operations Management*, 13(4), 489–507.
- [11] Singh, Varinder Deep. (2016) "Strategic Analysis McDonald's in China". https://www.academia.edu/32379197/Strategic_Analysis_McDonalds_in_China Word Count 6095 4 2 5 2 0 1 6
SUBMITTED BY SUBMITTED TO Strategic Analysis McDonalds in China MBA General Management TABLE OF CONTENTS
- [12] Kareh, A. (2018). *Council Post: Evolution Of The Four Ps: Revisiting The Marketing Mix*. <https://www.forbes.com/sites/forbesagencycouncil/2018/01/03/evolution-of-the-four-ps-revisiting-the-marketing-mix/?sh=45e3ee2c1120>
- [13] McDonald's. (2018). *Do all McDonald's restaurants have standard prices?* <https://www.mcdonalds.com/gb/en-gb/help/faq/do-all-mcdonalds-restaurants-have-standard-prices.html>
- [14] Galwey, I. (2022). *Expresii and the Future of Ink painting Animation*. <https://acas.world/cn/2022/07/09/expresii-and-the-future-of-ink-painting-animation/>
- [15] Nickolaus Erickson. (2016) *3rd Party Monitors Spur Action in McDonald's Chinese Food Safety Protocols*. https://gps.ucsd.edu/files/faculty/gourevitch/gourevitch_cs_erickson.pdf