Case Study of McDonalds: Strategy Formulation in a Declining Business

McDonald’s Corporation or rather the CEO, Mr. Greenberg realized there was a major problem arising within their corporation when their earnings declined in the late 1990s till the early 2000s. Their net income not only shrunk to 17%, but also suffered from slow sales growth below the industry average during that period of time. Although their market share was well above their competitors such as Burger King and Wendy’s nevertheless there was a slow share growth.

Therefore, the question of what caused the Big Mac Attack is raised. It is observed that there was a growing trend of customers moving to non-hamburger meals which is being offered by indirect competitors such as KFC, Subway (dominating the market with more than 13,200 US outlets) and Pizza Hut as an alternative choice. Sandwiches and a variety of microwaveable meals are being offered at supermarkets, convenience stores and even at petrol stations. This convenience has caused many patrons to switch away from the fast food outlet.

Besides that, there seems to be an increasing trend in fast casual dining which has affected sales for McDonald’s. Patrons are now more willing to spend extra for the traditional fast serving but with a better and classy ambience. Due to this ‘phenomenon’, the growth for fast casual segments grew from 15 to 20% compared to only 2% growth from fast food chains. Taco Bell for instance had an outstanding 19% increases in their profit which proves that higher priced outlets are still in demand.

McDonald’s is also facing a stiff competition among the hamburger eateries such as Wendy’s and Burger King. These major competitors are catching up fast by recognizing the importance of drive-through customers. In order to rope in the 65% of sales which is derived from drive-through delivery, these competitors are enhancing their preparation methods as well as the facility and speeding up their delivery process. Innovative approaches such as windshield responders that automatically bill customers are being introduced, to achieve the estimated 10% efficiency increase in drive-through which brings in an average sale by $54,000. Besides upgrading the drive-through services, these competitors have also understood the market preferences and have taken the risk as hamburgers outlets to offer new product lines ranging from healthy salads to chicken based products prepared in a healthy manner.

Furthermore, the eating trend among the youth and the older generations has undergone significant changes. Many patrons are becoming more health conscious and tend to be picky in determining their daily consumptions. This group of people has also expressed their dissatisfaction on the quality of food which is being served by both McDonald's and Burger King. It is an obvious fact that burgers served soaking with fat and oil is bound not only to affect patron's health but their conscience as well. Besides health reasons, many Americans' eating habits have changed towards the concept of eating out. Recession during that era has taken a heavy toll on many citizens causing them to be thrifty and have returned to home cooked meal instead.

Upon analyzing the causes to the problem, it is noted that these problem are vital to be addressed in order to sustain the life span of McDonald's. The decline of sales within McDonald's in USA can lead to a chain reaction and in the long run and cause declines in the group's worldwide annual sales and growth. Once the root cause has been identified, McDonald's will be able to re-strategies and develop new and innovative product line, promotions, facilities and even to venture into new market segments. In order to re-capture the lost patron segments, the need to shed the cheap and greasy image with a revamped store design may arise. However, the drawback of this is when additional cost may be incurred in order to compensate the eating trends.

Questions to Discuss:

How are customer's tastes changing? What Impact these changes have on McDonald's?

How well these changes reflected in the industry's competitive strategies?

Mcdonald's future with its current strengths and weaknesses?

Does McDonald's require separate strategies for its heavy user?

What the ceo should do to grow sales, profit and market share at Mcdonald's?