

MMK101

Marketing Fundamentals

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Fast Food Industry In Australia

# McDonald's

Class: Saturday

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## 1. Introduction

The fast food industry across the world has generated revenue of over \$ 570 billion and trend of fast food in Australia is growing at the rapid rate. Research of the Roy Morgan in Australia has suggested that around 55% of the population is visiting fast food restaurants on weekly basis and they are willing to pursue customization in food (Euro-monitor International, 2016). The novelty is considered as significant driver for boosting up growth potential of fast food industry. Along with this, increasing consumers' awareness about health issues has transformed the fast food industry over past decade (Soontiens and Lacroix, 2009). Consumers are showing more concern about nutritional aspect of food and they are wisely choosing products by keeping the health aspects into account. Therefore, fast food chains that are not offering healthy premium options to consumers can lag behind their competitors.

The present report is focusing on the Australian structure of fast food industry through one of the fast food company which is McDonald's. The report included the company's background which contains size, growth, customers, current strategies and objectives and shareholders. Also the report has discussed the relative six forces of macro-Environment. Moreover the discussion has carried out about competition, including; major competition, market shares and strategic models. Lastly it has highlighted SWOT analysis of McDonalds. .

## 2. Situation Analysis

### 2.1 Company

#### 2.1.1 Background

McDonald's is the largest chain of fast food across the world that has started in 1955 in Chicago. The first restaurant in Sydney has opened in 1971. In 2011 McDonald's has 869 restaurants cross Australia. Currently, the number of McDonald's restaurants in Australia has reached to 955, which is at second after the Subway food. McDonald's is franchise business in Australia and 80 per cent

of the franchises are being owned by local operators, while remaining 20% outlets are being operated by McDonald's Corporation.

### 2.1.2 Size

The size of McDonald's can be best measured by its revenue. Reflecting upon the report of IBIS (2016), the total revenue of McDonald's was \$3.74 billion in 2011, then through four years to 2015 the revenue rise to 4.30 which illustrates an annualized rise up of \$11 million. In Australia, McDonald's has recorded 3.5 rise in the same store sales for the third quarter, which is much higher than 1.3 same store sales in home country of McDonald's.

### 2.1.3 Growth

Recording to the IBIS report (2010) the McDonald's company growth from \$3.74 billion in 2011 to \$4.30 billion in 2015 which means it grown by 5% annualized over five years. It can be seen in figure 1 mentioned below. It has been claimed by McDonald's that they have achieved around 5 billion sales in Australia in the financial year 2016 (McDonald's Corporation, 2016). Further the McDonald's in Australia has witnessed significant increase in number of guests and sales over the past years and CEO of company has referred as most successful and fastest growing market of McDonald's.

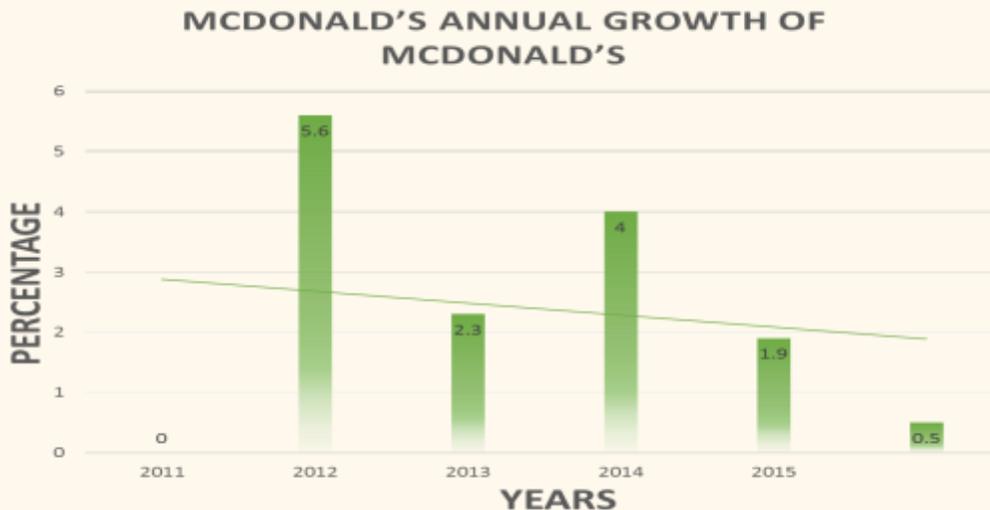


Figure 1: McDonald's annual growth

### 2.1.4 Industry Trend

The fast food industry in Australia is growing rapidly and the largest growth has been witnessed by McDonald's that is being followed by Subway systems in Australia. Among the overall growth of fast food industry, both McDonald's and Subway has accounted for 32% of fast food sales (McDonald's Corporation, 2016). It is notable that fast food chains has invested heavily in the product innovation with an aim of responding to changing expectations of consumers about food (Peterson, 2015). It is expected that Australian fast food industry will grow further based on the higher consumption pattern of Australian consumers on eating outside homes, which accounts for around \$ 3.6 billion.

### 2.1.5 Customers (Target Markets)

Customer is the most important for the company. Selection of right target of customers is highly important and McDonald's has focused on diverse set of customers ranging from children, adults and aged people. Affordable menu of McDonald's is attracting price sensitive consumers and most of Australian outlets of McDonald's offer drive through, longer opening hours and playing place for children (Euro-monitor International, 2016). It also offers relaxing time to adult and quick breakfasts for those who do not have enough time for eating. In Australia McDonald's has focused on innovation and it has offered customization, for instance, create your taste, the corner, all day and Gourmet breakfasts, which has considered as highly valuable by Australian consumers (Peterson, H., 2015). McDonald's has positioned its self distinctively by offering an opportunity to consumers to choose their own taste ingredients by using touch screen kiosk. It has added range of healthy products such as milkshakes, salads and low fats food items.

### 2.1.6 Current Strategies, Objectives and Shareholders

McDonald's is relying on integrated cost differentiation strategy which is offering an opportunity to company for offering highly valuable and differentiated food products at affordable prices. McDonald's has offered unique value to consumers by providing complete nutritious detail of its

food items, which enables the company to meet the requirements of health conscious consumers. The objective of McDonald's is to become favourite eating place for customers across Australia (Peterson, H., 2015). In order to fulfil its objective, company is offering exceptional services to customers, which is enabling it to become most preferred fast food brand in Australia. Shares of McDonald's are being sold to general public and the value of shares is increasing based on the high growth patterns of the company.

## 2.2 Competition

### 2.2.1 Major Competitors

The two major competitors of McDonald's in Australia are Subway system and Yum. Subway is second after the McDonald's in fast food industry of Australia.

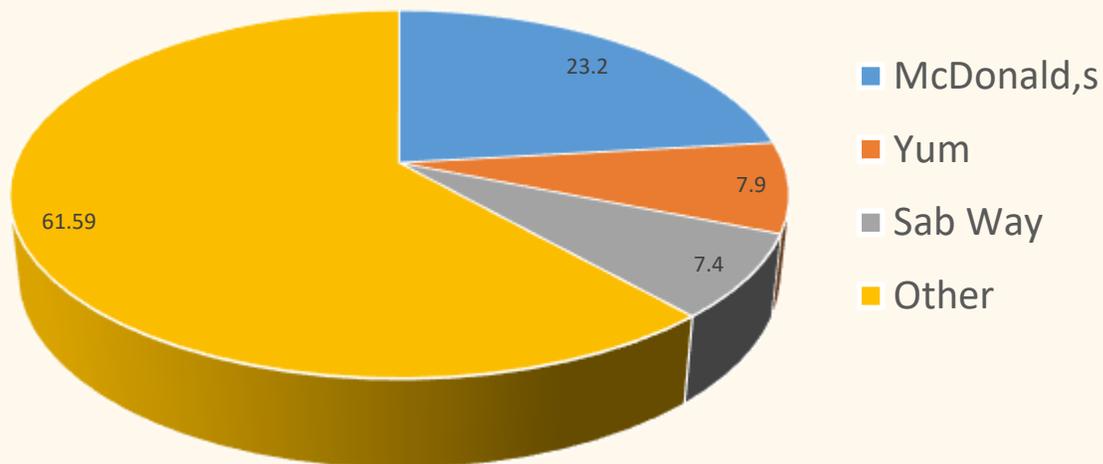
	Strengths	Weaknesses
Subway	<ul style="list-style-type: none"> <li>• Subway is globally recognize brand</li> <li>• High degree of customization</li> <li>• Marketing and promotional strategies</li> <li>• Sandwiches of Subway are low fat and consider health consciousness of consumers</li> </ul>	<ul style="list-style-type: none"> <li>• Offers limited focus on interior design of the outlet, lowering the attraction of ambience for consumers</li> <li>• Services are not consistent store to store</li> <li>• Offers limited attention to changing taste of consumers</li> <li>• Limited adaptability in menu based on changing consumer preferences</li> </ul>
Yum	<ul style="list-style-type: none"> <li>• Yum has loyal follow ship in Australia</li> <li>• Highly competent management team that grabs new opportunities and contributes in company's development</li> </ul>	<ul style="list-style-type: none"> <li>• Research and development of Yum is weak in comparison to competitors</li> <li>• Supply chain of company is very weak</li> <li>• Limited focus is maintained on innovation of food products</li> </ul>

	<ul style="list-style-type: none"> <li>• Unique products in comparison to competitors</li> <li>• Effective promotion of company which enables them to increase recognition of brand</li> </ul>	<ul style="list-style-type: none"> <li>• Limited attention if offered on adaptability in response to consumer's taste and preferences</li> </ul>
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**2.2.2 Market Shares**

Fast food industry in Australia has managed by three big companies and other. Firstly, McDonald's Australia holding PTY limited, it is involved in the market by 23.2% which makes the biggest fast food company. Secondly, Yum restaurants Australia PTY limited captures 7.9% shares in the fast food market of Australia. Finally, Subway system Australia PTY limited occupies 7.4% shares (IBIS 2016). It is notable that McDonald's is leading fast food brand in Australia and it is preferred by the consumers more than any other brand.

## Market share



**Figure 2: Market Share**

### 2.2.3 Strategic Models

**Ansoff Matrix:** Based on the Ansoff matrix there are four strategic growth options that can be pursued by businesses including; market penetration, market development, product development and diversification. Firstly, market penetration is when company increase sales of present products to present market segment. For instance, McDonald's in 2009 reduced the sodium for their cheese by 20%, with an aim of increasing level of its sales (McDonald' 2016). Secondly, product development refers to company's approach for increasing sales in current market segment by providing new product. For instance, McDonald's has adaptable menu in Australia and it is providing new food products based on changing consumer's preferences (McDonald's 2012). Thirdly, market development where company is increasing sales by entering into a new market. For evidence, "McDonald's has lunched Happy Readers, a two-year campaign to giveaway books and encourage children to read as part of its Happy Meals marketing strategy" (Baker 2013, p.15).

Finally, diversification strategy refers to approach of company to produce new products for new markets. Evidence, McDonald's has diversified in international market of Australia and it has adapted its menu by offering new food items to meet the demands of consumers in new market (McDonald's 2012).

**BCG Matrix:** The BCG matrix of McDonald's in Australia indicates that McDonald's has some signature products in Australia that are star and offering highest revenue. For instance, Down Under Big Mac, breakfast items and salad and wraps. The all day breakfast and happy meals of the McDonald's are cash cows that generate revenue for funding low selling items of the company (Peterson, H., 2015). McDonald's has adaptable menu and it is making improvements in the food items that are falling under the category of question marks and dogs. Overall, McDonald's is the star brand that is leading in fast food chain of Australia.

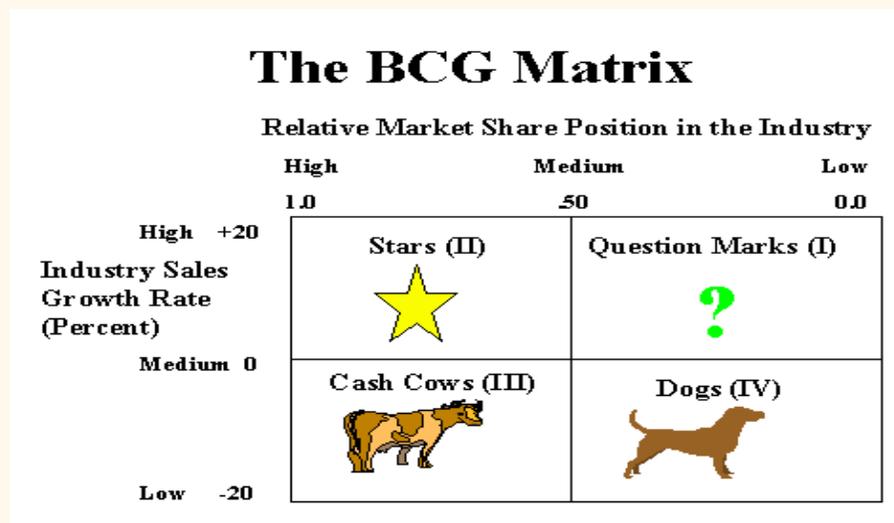


Figure 2. BCG matrix

## 2.3 Macro Environment

### 2.3.1 Political

Political factors consists of government laws, fast food company has many restriction, this is because costumers concern about their health from both terms of quality or safety of food which led to increased caution of McDonald's for food safety and produce healthy products. Along with this, McDonald's is exposed to regulations regarding advertisement, environmental safety, franchising, and employment and taxes (Soontiens and Lacroix, 2009). McDonald's has seek compliance with political factors at international level.

### 2.3.2 Economic

Economic can be the state of the economy in any country in terms of unemployment and inflation. Affordable prices of McDonald's enable it to handle pressure from increasing inflation. In similar way, interest rate fluctuation and exchange rate fluctuations are important factors, which are considered by McDonald's while carrying out business at international level (Rowley, 2004).

### 2.3.3 Social

Social and cultural factors relate to behaviour and values of the society. In this time, most people in Australia have changed their diet and they are focusing on consuming more healthy food products, rather than fast food (Tanahashi, 2008). This led to making the companies to provide healthy meals for costumers and McDonald's has readily responded to the changing consumer's preferences through novelty and customization.

### 2.3.4 Technological

Technology is growing at fast pace and McDonald's has incorporated advanced technology with an aim of increasing efficiency of its production. By embracing technology, McDonald's has gone digital and it is engaged in communicating with customers in real time. Kiosk system implied by McDonald's in Australia is significant instance of technology adoption by McDonald's in Australia (Sheehan, 2005).

### 2.3.5 Demographic

Demographic factors which are referring to terms of population, family's size, education geographic shift, age of population and ethnic diversity. McDonald's has added food items in its menu for meeting the needs of diverse customers in terms of demography (Rowley, 2004). For instance, it offers free tea to elderly who visit McDonald's in Australia.

### 2.3.6 Natural

Natural environment is related to the earth, such as shortage of raw material, energy cost, the nature of place and disaster government intervention. McDonald's has relied on sustainable production and it is lowering its water footprints and carbon footprints with an aim of becoming environmentally responsible company (Peterson, 2015).

## 2.4 Swot

<b>Strength</b> <ul style="list-style-type: none"><li>• Globally recognized brand</li><li>• Leading fast food company in Australia</li><li>• McDonald's has adaptable food menu and products in Australia are adjustable to preferences and taste of local people</li><li>• McDonald's in Australia is capable of innovating and customizing which is making it highly profitable market for company ( Peterson, 2015)</li></ul>	<b>Weakness</b> <ul style="list-style-type: none"><li>• McDonald's is exposed to issue of increasing health awareness that may affect the sale of junk food items ( Peterson, 2015)</li><li>• Non Payment of Tax</li><li>• Delays the payment of staff salaries</li><li>• Lawsuits</li></ul>
<b>Opportunity</b> <ul style="list-style-type: none"><li>• McDonald's can include home delivery services</li></ul>	<b>Threat</b> <ul style="list-style-type: none"><li>• Food safety and other system</li><li>• High labour costs</li></ul>

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|--|--|
| <ul style="list-style-type: none"><li>• McDonald's can make its menu more healthy suiting to health preferences of consumers (McDonald's Corporation 2016)</li><li>• McDonald's can focus on green food products</li><li>• It can continue to bring changes in its menu based on the continual research of consumer's food preferences</li></ul> | <ul style="list-style-type: none"><li>• Intense competition</li><li>• Continually changing food preferences of consumers based on health consciousness</li></ul> |
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