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**Impact of Constructive Marketing Strategies on Return (Revenue & Profitability): A Case Study of Mcdonald's**

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**Impact of Constructive Marketing Strategies on Return (Revenue & Profitability): A Case Study of McDonald's**

**Abstract**

This paper contains the analytical view of the marketing strategic shift of McDonald's and its effectiveness with respect to the growth of the company. Marketing strategies of the company are discussed in the three dimensions, which are marketing philosophy, company's status with respect to the time of entrance in the market, and nature of the market served. Company continued to retain the strategies of market pull and national high share in the first and third dimensions respectively since its origination. But company shifts its marketing strategy from frontal attack to leap frog in the second dimension of marketing strategy analysis. In the year 2004, McDonald's aligned its marketing strategies keeping in view the changing trends towards healthy and diet food from rich (fatty food) and nutritious food. Due to this strategic shift, the company not only protected the growth of its market share but also achieved record increase in revenue of 10%. A record increase of 55% in the net income along with the record increase of 19% in cash from operations which proved not only the efficiency but also the effectiveness of changed marketing strategies of McDonald's. This pace of the growth of the company continued in later years also with a little fluctuation due to international economic crisis. The ill effects of the fast food have also been mentioned in this paper.

**Introduction**

McDonald's corporation came into being in 1954 as a follower of Kentucky Fried Chicken (KFC) in the industry of fast food. McDonald's turned into public limited company in 1965. After attaining prominent position in the USA, McDonald's entered into the international market through franchising and joint ventures. Only 15% of the total restaurants are owned by the company. Remaining 85 % are operated by the franchises and joint ventures ([www.scribd.com](http://www.scribd.com)). Now McDonald's enjoys the status of the

largest fast food restaurants. It is serving 58 million customers daily and doing business in 120 countries of the world ([www.mcdonalds.com](http://www.mcdonalds.com)).

McDonald's is serving only one strategic business unit of fast food chain in its portfolio and has got distinguished because of its high quality and hygienic products and services.

McDonald's is one of those organizations that undertook the right strategic turn at the right time and kept the company growing in spite of

serious worldwide economic recession during last five years. McDonald's most prominent strategic turn was implemented in 2004, when McDonald's turned its marketing strategy from frontal attack to leap frog. As we know that McDonald's is doing business in the international market, so in this paper international marketing mix of the company will be considered. Marketing strategy of McDonald's can't be analyzed in isolation. It requires having a bird eye view of the whole strategic management process of the company in order to check the suitability of its marketing strategy as the whole. A brief outlook of the strategic management process of the company is given in the following page.

### **Aims and Objectives**

The main objective of this paper is to analyze various strategies followed by multinational corporations – in my case McDonald's Restaurants- in order to survive in dynamic business environment, to have an edge on its competitors, and to retain its profitability position. Ill effects of fast food consumption on health have also been mentioned.

This task has been accomplished by:

- Understanding the need to formulate stringent marketing strategies
- Identifying the modes of implementing the marketing strategies efficiently
- Assessing the impact of the marketing strategies on the return both revenue and the ultimate profitability
- Understanding the various factors that influence the decision regarding selection of desirable marketing strategies

- Identifying the pros of the marketing strategies employed by McDonald's
- Determining the need to be adaptive to the environment and to the customer changing needs and requirements

### **Hypothesis to be tested**

H<sub>0</sub>: There is no correlation between the marketing strategies of an organization and its prospective return (both revenue and the ultimate profit).

H<sub>1</sub>: There does exist a strong correlation between the marketing strategies of an organization and its prospective return (both revenue and the ultimate profit).

H<sub>0</sub>: There are no ill effects of fast food on health.

H<sub>1</sub>: There are ill effects of fast food on health.

### **Reasons for selection of this topic**

Strategic Management Process is a hallmark of the age which is not only desired for management of administrative affairs but also for all others kinds of fields as well including marketing at apex. Gone are the days when the fields of accountancy, marketing, finance, management were considered to be separate and separate handling and function were undertaken for these purposes. Now-a-days diversification is considered to be the best strategy to keep any thing going on, and to avoid fiasco. Keeping in view the above considerations, an appropriate amalgam is also needed between marketing and strategic management. Through strategic management process tools, a firm enables itself to formulate and implement state-of-the-art logical course of actions (strategies) in order to be a vibrant in all form of circumstances. So, We selected this topic keeping in view the rationale for triumphant success of a multinational

corporation in consequence of apt marketing strategies.

**Sources of data and other information (research)**

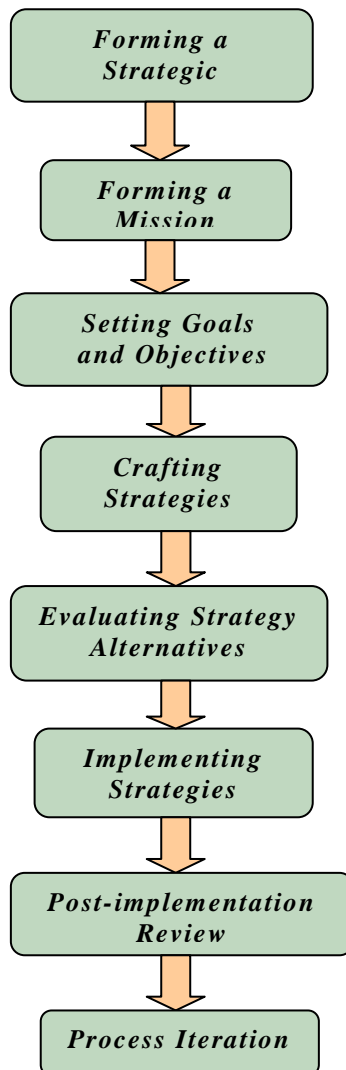
To write this paper, various textbooks of prime significance were used as enlisted in the references.

However, for some up to date and concrete information about McDonald's, the main source was the internet as it enabled me to access and seek the research paper written by various authors as well.

In addition to above statements, it is hereby mentioned with full confidence that wording of this paper is of my own except wherever sheer words of text books or of internet sources would have been used.

**Strategic management process of Mcdonald's**

Strategic management process for all kinds of activities, in general, consists of the following logical steps based upon the available material in various text books.



A brief description of the various steps in the above logic flow diagram is as follows:

**Strategic vision**

Company vision specifies the future outlook and make up of the company. Also, it indicates management aspirations for the organization, providing a landscape view of “What business an organization wants to be, where it is headed, and the kind of shape it wants to create”.

**Mission**

Mission is synonymous with Purpose, and this is considered to be the purpose of existence of an organization, and it can be describes as the basic or fundamental function (s) or task (s) for which an organization has come into being.

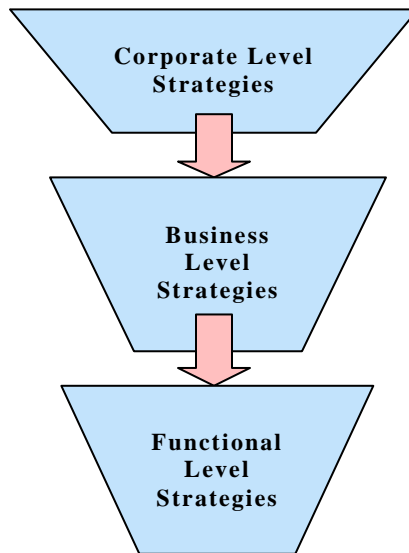
**Goals and objectives**

Goals and objectives are used interchangeably despite of marginal difference between them. Goals are some what broader than objectives. Any how, objectives are the desired accomplishments or outcomes of the company towards which strategies are aimed. (Etzel *et al.*, 2000)

**Strategy (crafting)**

In simple words, a strategy is described as a logical course of action to accomplish certain goals or to get the required job done. (Etzel *et al.*, 2000)

Third step in the above flow chart is divided into further three levels of strategy formulation. According to Walker *et al.* (2005), different levels of strategy formulation are as follows:



*Corporate Level Strategies* are formulated at overall company level irrespective of number of Strategic Business Units (SBUs) in the company’s portfolio. Business level strategy involves crafting a strategy and positioning the firm in each of its businesses to allow it to obtain

competitive advantage over its rivals. Also, corporate strategy is concerned with the overall use of resources by the organization as a whole.

*Business Level Strategies* are formulated at SBU level in order to achieve the business level objectives.

Further one SBU has many functions like purchase procurement, human resource management, production, financing, marketing etc. And business level strategy is concerned with how to compete within a particular market.

Separate sets of strategies are required to materialize above-stated functions. These strategies are called *Functional Level Strategies* and marketing strategy is the most important functional level strategy. It can't be drawn and implemented in isolation. Marketing Strategy is drawn around the corporate and business level strategy, while all the other functional strategies are drawn around the marketing strategies. These are concerned with the use of specific marketing strategies as part of overall business strategy.

It has been argued (Walker *et al.*, 2005) that where there is only one SBU in the product portfolio of the company, corporate level strategy is omitted from different level of strategies. As it is already discussed that the McDonald's has only one SBU of fast food chain so it will be convenient to start from business level strategies of McDonald's. McDonald's have differentiation strategy at

business level as opposed to cost leadership strategy (Ooppapers.com).

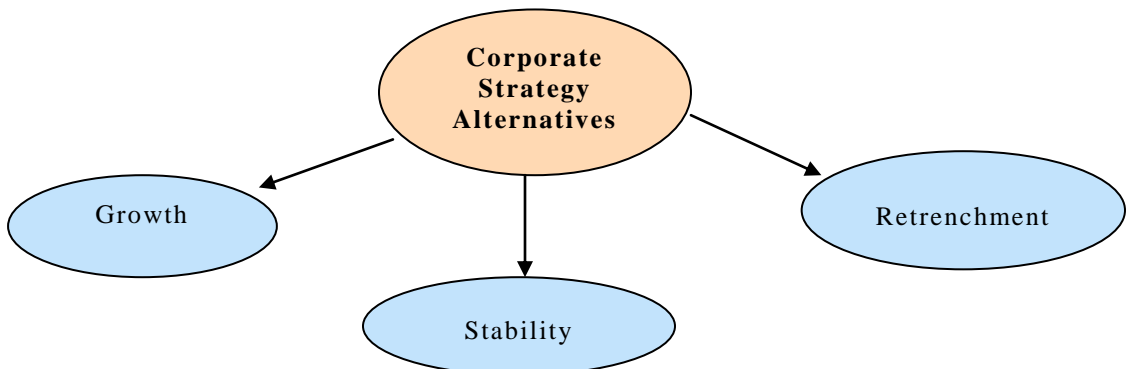
In simple words, a strategy is described as a logical course of action to accomplish certain goals or to get the required job done.

The *key questions* that serve as guides for establishing a marketing strategy are as follows;

- Where are our customers, and why do they buy?
- How do our customers buy?
- How is it best for us to sell (Strategy)?
- Do we have something to offer that competitors do not?
- Do we wish to take legal steps to discourage competition?
- Do we need, and can we supply, supporting services?
- What are the best pricing strategy and policy for our operation?
- How can we best serve our customers?

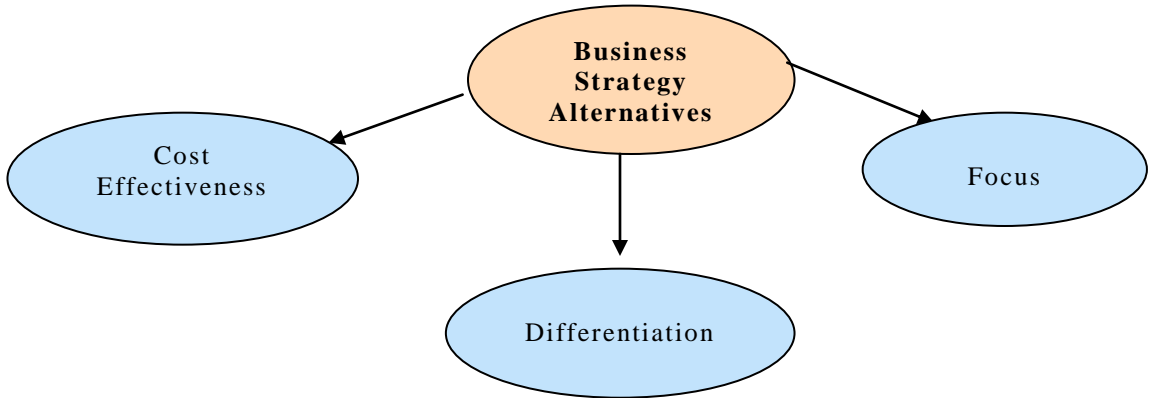
#### Evaluating Strategy Alternatives

With in the *Scope of Corporate Strategy*, there are three alternatives, that are available to a firm, are as follows;



All these decisions are made by the top management for the overall direction of the organizations and our concern is to extract those functional level strategies that lead McDonald's to

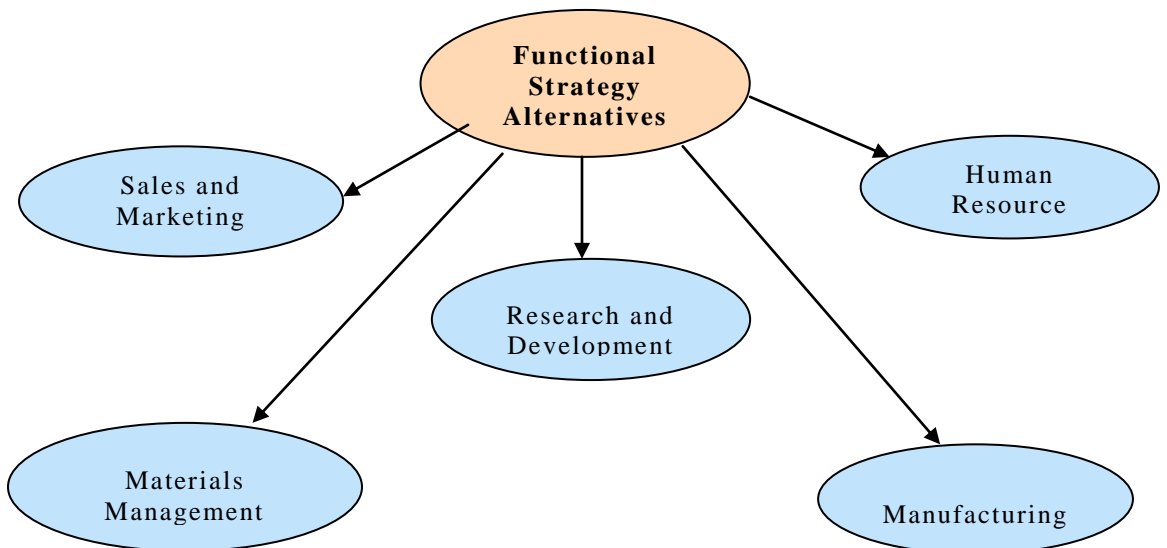
success. Within the *Scope of Business Strategy*, there are three core alternatives, that are available to a firm, are as follows;



All these decisions are undertaken by the middle management regarding how and where to utilize the resources of the organization and our concern again is to extract those functional level strategies that lead McDonald's to success.

A firm needs a functional strategy for every competitively relevant business activity and organizational unit- R & D, production, marketing, services, distribution etc. And with in the *Scope of Functional Strategy*, there are as many number of alternatives as much is the scope of the organization itself by its diversified functions are concerned, that are available to a firm, are as follows;

The thrust of the business strategy is how to build and strengthen the company's competitive position in the market place.



All these decisions are undertaken by the middle management regarding how and where to utilize the resources of the organization and our concern again is to extract those functional level strategies that lead McDonald's to success.

The thrust of the business strategy is how to build and strengthen the company's competitive position in the market place.

Since the company's origination, it has been trying to offer customized products according to the needs of the customers. McDonald's does not only design different menus for different countries but also creates adaptive environments of the restaurants in different countries as per their distinct cultures and tastes. McDonald's always tried to put down its rivals in the grounds of quality and taste by offering something additional and exclusive to its customers in its menus and services.

Marketing strategy takes input from the company's vision, mission, goals and objectives, and other superior level of strategies while other functional strategies of the company take input from the marketing strategy.

### **Implementing strategies**

After the selection of the appropriate strategy, the firm goes into practice with the chosen strategy (ies) and actual execution is exhibited.

### **Post-implementation review**

For all kinds of decisions and activities, there is always an acute need for the analysis regarding *the effectiveness of the same* (decisions and activities) in order to seek *whether our decisions and the respective activities proved to be successful or not?*

### **Process Iteration**

In both of the consequences (success or failure), the process iterates in order to improve and enhance the decisions and function if there has been success, and also to define and incorporate new decision in the light of flaws identified and remedial measures defined if there has been failure.

### **Vision of the McDonald's**

The long-term vision of McDonald's is given as under:

*McDonald's vision is to be our customer favorite place and way to eat with inspired people who delight each customer with unmatched quality, service, cleanliness and value every time. We invite you to be the part of this winning team and give yourself an opportunity to people striving to create similes on the faces of millions of people every day.*

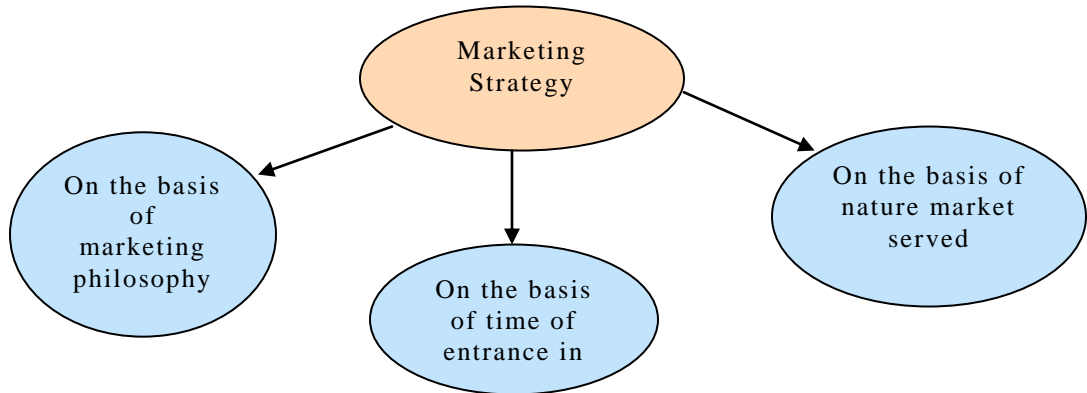
From the vision of the McDonald's, it can be seen that McDonald's wants to be the favorite fast food brand among people. So differentiation business level strategy is considered to be the preferred one in order to get favorite brand among people. As opposed to differentiation, cost leadership strategy can induce the customers to do trade off between delicacy of the product and price but can't get the product favorite among the people. So it can be observed that there is compatibility between the vision and business level strategy chosen by the business.

Due care is needed to be put forth while choosing the marketing strategy of the business. Different authors have discussed the marketing strategy in different dimensions. These different dimensions are basically the different ways of looking at the same thing. In a general view "*the marketing logic by which the business unit hopes to*



achieve its marketing objectives is called marketing strategy” (Marketing Management by Kotler 2002).

Generally, a marketing strategy can be elaborated in three dimensions, which are as follows:



It will be necessary to analyze the marketing strategy of McDonald’s within the above described three dimensions. This kind of analysis will provide a better understanding of the marketing strategic shift of McDonald’s and its effectiveness.

**On the basis of marketing philosophy**

Marketing philosophies are synonymous with marketing orientations. Marketing philosophies are basically the concepts under which organizations design and carry out their marketing strategies. According to Kotler (2002), there are five marketing philosophies, which are as follows:

**Production concept**

The idea holds that consumer will favor the products that are easily available and highly affordable, and that the organization should therefore focus on improving production and distribution efficiency.

**Product concept**

The idea holds that consumer will favor the products that offer the most quality, performance and features, and that the organization should therefore devote its energy to making continuous product improvements.

**Selling concept**

The idea holds that consumer will not buy enough of the firm’s products unless it undertakes a large-scale selling and promotion efforts. And under this orientation, marketers try to sell their products by using various strategies.

**Marketing concept**

The idea holds that achieving the organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfaction better than the competitors do.

**Societal marketing concept**

The idea holds that a company should make good marketing decisions by considering consumer wants, the company’s requirements, and consumer’s long run interest, and society’s long run interests.

Now two important marketing strategies discussed by the Gupta V., Gollakota K., Srinivasan R. (2005) are **pull strategy** and **push strategy**. Pull Strategy is based on the marketing concept while push strategy is based on the selling concept. According to Kotler (2002), in **push strategy** the producer promotes the product to

channel members to induce them carry the product and promote it to the final consumers, and in *pull strategy* the producer spends a lot on advertising and consumer promotion to induce final consumers buy the product.

McDonald's has been executing pull strategy since its origination and there has not been any strategic shift taken by the McDonald's in 2004 when marketing strategy is analyzed in this dimension. In 2004, McDonald's did not only change the pattern of its menus and services in different countries but also changed the pattern of its advertisement campaign. In short, we can conclude that McDonald's changed the whole pattern of its marketing efforts, but in spite of it, the underlying marketing philosophy was same. Changed pattern of marketing efforts was a response to the changing trend of the customers' preferences. So, it can also be concluded that changed marketing efforts during 2004 were basically directed to sponsor the execution of the pull strategy and there was not any change occurred in marketing strategy in the dimension of underlying marketing efforts.

#### **On the basis of time of entrance in the market**

McDonald's corporation came into being in 1954 as a follower of Kentucky Fried Chicken (KFC) in the industry of fast food. McDonald's turned into public limited company in 1965. After attaining prominent position in USA, McDonald's entered into the international market through franchising and joint ventures. Only 15% of the total restaurants are owned by the company. Remaining 85 % are operated by the franchises and joint ventures

#### **On the basis of nature market served**

McDonald's has been a fast food chain since its origination and it followed the KFC in the market to compete with

the same. Here our concern is to excerpt the strategies that contributed towards McDonald's returns.

Now McDonald's enjoys the status of the largest fast food restaurants. It is serving 58 million customers daily and doing business in 120 countries of the world.

#### **McDonald's growth marketing strategy**

It has already been discussed that McDonald's is not the first mover in the business of fast food. McDonald's was followed by Kentucky Fried Chicken (KFC). The marketing strategy adopted by follower Company has always been the *growth marketing strategy*. According to Walker, Boyd, and Larréché (2005), there are different approaches to grow under the growth strategy. A bird eye view of these approaches is as follows;

##### **Frontal attack**

This approach holds to capture substantial repeat purchases from the target competitors' current customers, and to attract new customers among late adopters by offering lower prices or more attractive features. To successfully implement a Frontal Attack, a challenger must find one or more ways to achieve a sustainable advantage over the target competitors.

##### **Leap frog**

This approach holds to induce the current customers in the mass market to replace their current brand with superior new offerings, and to attract new customers by providing enhanced benefits. This strategy is pursued by the companies in those markets where some needs and criteria are not met by the existing market players.

##### **Flank attack**

Under this approach, growing company attracts substantial share of new customers in one or more major segments where customer's needs are

different from those of early adopters in the mass market. A Flank Attack is appropriate when the market can be broken into two or more large segments, when the leader and/or other major competitors hold a strong position in the primary segment, and when no existing brand fully satisfies the needs of customers.

#### **Encirclement**

By pursuing this strategy, the growing company attracts a substantial share of new customers in a variety of smaller, specialized segments where customers' needs or preferences differ from those of early adopters in the mass market.

#### **Guerrilla attack**

Under this strategy growing company captures a modest share of repeat purchases in several market segments, and attracts a share of new customers in a number of existing segments.

A Guerrilla Attack is appropriate when well-established competitors already cover all major segments of the market and the challenger's resources are relatively limited. Flanking, Encirclement, or all-out Frontal Attacks may be impossible.

Growth marketing strategy of McDonald's before 2004 was frontal attack, because McDonald's always tried to capture substantial repeat purchases from the competitor's existing customers by offering more attractive features in the existing products at that moment.

In 2004, McDonald's turned to shift its marketing strategy from frontal attack to leap frog sales growth strategy. This strategic shift of McDonald's was due to changing needs and trends of the people from *Rich and Nutritious Food* to *Healthy and Diet Food*. McDonald's carried out timely scan of the problem of increasing obesity in the people. Some Non-Government Organizations

(NGOs) declared Macdonald's to be responsible for the increasing obesity in the children. McDonald's responded to these problems in a very proficient manner. McDonald's revolutionized its menu in different countries at the pattern of *Healthy and Diet Food*, instead of *Rich and Nutritious Food*.

McDonald's not only changed the pattern of its menu but also altered the pattern of its advertising campaigns. McDonald's began its advertising campaigns and programs with athletics as well. McDonald's raised the slogan of *Balanced and Active Life Style*. McDonald's started many other programs under the slogan of *Balanced and Active Life Style* to change its market positioning and to keep the company's strategies aligned with the changing trends of the market. McDonald's was the first one among the fast food industry which introduced the low fat cheese burgers, diet ice creams, diet shakes, low fat milk jugs, fresh fruit juices. These kinds of modifications were made in the customized menus of the different countries according to the culture and tradition of these countries. McDonald's also provided the nutritious facts along with its different food packages. These efforts of the McDonald's trapped the health conscious customers in a very healthy manner.

#### **International marketing strategies of McDonald's**

As it has been already discussed that McDonald's is undertaking its business in 120 countries of the world, so the company is always anxious to formulate the marketing strategy for its international markets in a cohesive manner. International marketing strategy leads towards the right combination of marketing mix. According to Walker *et al.* (2005), there are two major international

marketing strategies, which are as follows:

**Global marketing strategy**

This strategy pursues the standardization of the product across the border because of the growing world wide homogenization of the world. It is very cost effective but is an ideal situation.

**National marketing strategy**

Under this strategy, product and programs are quite adaptive to the needs and wants of the individual countries because of their environmental, especially cultural differences.

McDonald's marketing strategy of *Balanced and Active Life Style* is global in nature but it is executed nation-wide as well. It means that marketing efforts of McDonald's changed its orientation from rich fast food to healthy fast food but in customized way of different countries. Menus and services were revolutionized but in the grounds of existing customized menus of the countries. Also, there is a need to discuss the transition in the international marketing mix of McDonald's in the year 2004.

**Product**

"Any thing that can be offered in a market for attention, acquisition, use or consumption that might satisfy a want or need"

(Principles of Marketing by Kotler and Armstrong 2009)

According to Walker *et al.* (2005), the product of an international company can be designed under three approaches, which are as follows:

❖ **Make the same products to all the countries**

This strategy requires that the physical product available for sale in each country should be the same

except for labeling and the language used in the product manuals. This concept assumes customer needs are essentially the same across national boundaries

❖ **Adapt the product to local conditions**

This strategy keeps the physical product essentially the same. Only the modifications that represent a small percentage of total costs are permitted.

❖ **Develop a country specific product**

In this situation, the physical product is substantially altered that affects a significant part of total costs across countries or a group of countries. Such strategy is common with packaged and personal-care items.

McDonald's followed the third approach since its origination because of having highly customized menu and services in different countries.

**Price**

"The amount of money or material value charged for a product or service, or the sum of the benefits of having or using a product or service"

(Principles of Marketing by Kotler and Armstrong 2009)

McDonald's follows price skimming approach for pricing its products. Macdonald initially charged high prices for newly introduced products, and then it began to offer discounts in order to make the product affordable for the middle and upper middle class of the country. McDonald's doesn't follow standardized pricing strategy for all the countries. It offers different prices in different countries according to the economic conditions of the country.

**Place**

"It includes the company activities that make the product available to the target consumers"

(Principles of Marketing by Kotler and Armstrong 2009).

McDonald's situates its restaurants at the best places of the targeted area. Most of the McDonald's restaurants are in urban and semi urban areas in the world. McDonald's target market is upper and upper middle class, and majority of the McDonald's are situated in the posh areas worldwide.

### **Promotion**

"The activities that communicate the merits of the product and persuade target customers to buy it."

(Principles of Marketing by Kotler and Armstrong 2009)

McDonald's promotion strategy is not standardized through the world. McDonald's considers the cultural, social and religious values of the countries before designing any advertisement campaign for those countries. In 2004, McDonald's raised a world wide slogan of *Balanced and Active Life* in its advertising campaigns by perceiving ever-increasing worldwide trend of fitness among the people. This slogan chased a huge market share for McDonald's and left the record of highest ever increase in revenue in the year 2004.

Further, a detailed analysis of changed marketing activities of McDonald's in the year 2004 would provide the real picture of the McDonald's sensitivity towards the changes in the environment.

### **Changes in marketing activities of McDonald's**

Beginning of the new century brought with it the problem of worldwide increasing obesity in people. This problem caused the people to have a critical look at their diet chart. People were becoming more and more health and diet conscious. There was an increasing desire among the people to become smart and active. This

changing trend could prove disastrous for the restaurants dealing in traditional rich and nutritious food. There was a need to perceive the changing trend of the people regarding their diet plans. In the above described scenario, McDonald's became able to acquire the status of market leader in responding to the changing marketing needs. McDonald's developed a framework under its *Balanced and Active Life Strategy*.

The above framework consisted of the following components of energy balanced equation, which are as follows:

- Menu Choices
- Physical Activity

Another component of the framework was information regarding the ways of spending *Balanced and Active Life*. Third component served as a support to the energy balanced equation. McDonald's improved the taste of its core menu on the pattern of *Healthy and Diet Food*. McDonald's also introduced Premium salads, vegetable servings, low fat cheese burgers, Low fat milk jugs, fruit bags, and no sugar drinks and fruit juices. In this way, the company rolled out a global brand approach of *Balanced and Active Life Style*.

In this way, McDonald's also changed its market positioning from *Rich and Nutritious* fast food selling brand to *Healthy and Diet* food selling brand. Revitalization of menus of different countries was in a customized and country specific manner. A range of different sizes of menus were also offered to the customers.

Let's have a glance at the new menu choices offered by McDonald's is as follows:

**Menu choices**

McDonalds developed the healthy and nutritious menu choices for different countries. McDonalds’ customized menu choices were on the pattern of values and cultures of the countries. For example, McDonald’s restaurants in Japan introduced Pork Teriyaki Burger, McDonald’s Taiwan introduced a Rice Burger, McDonald’s Brazil offers Coconut Water, McDonald’s restaurants in the Middle East introduced the McArabia, which

contained two grilled chicken patties, lettuce, fresh onions, tomatoes and a garlic mayonnaise sauce filled in Arabic flatbread. McDonald’s not only enriched its menu choices on the pattern of healthy and nutritious food but also provided full information regarding the nutritional facts for each menu choices. An example of the nutritional facts of the menu offered by McDonald’s USA is given in the following page:

**Table 1: Illustrating the Happy Meal Combinations - McDonald’s USA**

Approximate contribution to a child’s recommended daily intake for:*		
Chicken McNuggets (4 pc), small french fries, Sprite® (12 fl. oz. cup)	Hamburger, Apple Dippers with low fat caramel dip, 1% low fat Milk Jug (236 ml carton)	
Calories	34%	31%
Fat	44%	26%
Saturated Fat	28%	37%
Cholesterol	8%	13%
Protein	61%	101%
Vitamin B6	64%	43%
Vitamin B12	18%	158%
Calcium	3%	63%
Iron	13%	30%
Zinc	14%	59%
Vitamin E	22%	3%
Magnesium	29%	45%

\*Calculations as of 28<sup>th</sup> September 2004, based on the recommended daily intake for a six-year-old girl, low activity. Source: Dietary Reference Intakes, Institute of Medicine, 2001 – 2003.

In this way, McDonald’s helped its customers in maintaining their diet plan by providing them information about different meal choices. McDonald’s also offered different sizes of meal in order to make them more adjustable for their customers.

**Physical activity**

McDonald’s not only improved its menu choices but also worked on the second component of energy balanced equation. McDonalds’ focused on the physical activity promotion strategy.

promote physical activities among the people. McDonald’s supported different types of sports games in different countries at grass root level. McDonald’s distributed free 30 million pedometers around the world in order to promote daily walking among the people. McDonald’s initiated a special physical activity program with the name of “Go Active with Ronald McDonald” in order to promote walking, moving, and dancing among the children. McDonalds’ not only supported Olympic Games but also inspired the people to do more and more physical activity through the athletics.

According to this strategy, McDonald’s initiated many programs of different types to

**Education and Information**

McDonald’s started to educate people regarding *Balanced and Active Life* style by providing information on the internet, tray liner, and brochures. The above defined three vehicles educated the people regarding the different products of the company and different ways of balancing food intake with the physical activity. Education and Information program was just a supporting component of energy balance equation.

In this way, McDonald’s aligned its marketing efforts along with the world

wide changing trends of the people. Now the only thing left is to have a look at the effectiveness of these changed marketing efforts. A brief description of above-referred marketing efforts is given below:

**Effectiveness of the strategic marketing shift of McDonald’s**

It is needed to have a look at the financial facts of last six years to evaluate the effectiveness of marketing strategic shift of McDonalds’ with the beginning of new century which are as follows:

**Table 2: Yearly total revenue, net income and cash flow of MacDonalld’s and their growth rates (2003-2008)**

Year-wise Revenue, Net Income & Cash from Operations	Average Annual Growth Rate*	2008 (V <sub>1</sub> )	2007	2006	2005	2004	2003 (V <sub>0</sub> )
Total Revenues	6.4 %	\$23,522	22,787	20,895	19,117	17,889	16,154
Net Income	19.5%	\$ 4,313	2,395	3,544	2,602	2,279	1,471
Cash provided by operations	10.3%	\$ 5,917	4,876	4,341	4,337	3,904	3,269

Source: www.mcdonalds.com

\* calculated using the formula:

$$g = \left[ \left( \frac{V_1}{V_0} \right)^{\frac{1}{T_1 - T_0}} - 1 \right] 100 \text{ where } g = \text{average annual growth rate, } V_0 = \text{initial value,}$$

$V_1 = \text{last value, } T_1 - T_0 = \text{number of years which is 5}$

By considering the above data, annual increase in revenue, net

income, and cash from operations can be calculated as follows.

**Table 3: Percentage changes in revenue, net income and cash flows (2004-2008)**

Year-wise %age increase in Revenue, Net Income & Cash from Operations	2008	2007	2006	2005	2004
Percentage Increase in Revenue	3.23%	9.06%	9.30%	6.86%	10.74%
Percentage Increase in Net Income	80.08%	-32.42%	36.20%	14.17%	54.93%
Percentage Increase in Cash from Operations	21.35%	12.32%	0.092%	11.09%	19.42%

Source: www.mcdonalds.com

Changed marketing strategies of McDonald’s began to reap healthy results right after its implementation and also percentage increase in revenue reached its highest ever figure of 11%. In the year 2004, increase in net income and cash from operations was also remarkable. Company’s revenue, net income, and cash from operations continued to increase in the following years in spite of the worldwide economic crisis.

In the year 2008, increase in net income and cash from operations reached at the remarkable height of 80% and 21% respectively. In this way, McDonald’s continued its pace of growth in the new decade of 2000 in spite of worldwide economic crisis and changed preferences of the people. This continued pace of growth in the said variables was due to the right marketing strategic turn taken by the Macdonald’s at right time. Need exists to mention the ill effects of fast food consumption on health.

**Effect of fast food consumption on health**

Fast food can be defined as food that requires little preparation before being served”<sup>1</sup>. This usually refers to food such as burgers, pizza and fried chicken that can be obtained quickly from restaurants. This usually refers to

food such as burgers, pizza and fried chicken that can be obtained quickly from restaurants.

Recently, fast food chains such as McDonalds, Pizza Hut and KFC, have been criticised over factors such as very high calorie content, increasing portion sizes and the level of unhealthy fats (trans fat) found in the food.

In the United States consumption of fast food meal has tripled and calorie intake from fast food has quadrupled between 1977 and 1995.<sup>1</sup> Studies have shown that the increase in fast food intake puts individuals at increased risk of obesity and insulin resistance. Insulin resistance is a major risk factor for Type 2 Diabetes Mellitus. The risk of heart disease and stroke are also greatly increased due to the high levels of saturated fats found in fast food. Fast food has also shown to be high in sodium which increases blood pressure, further increasing the chances of suffering from a heart attack or stroke.<sup>ii</sup> Furthermore, an increase dietary intake of fast food corresponds to lower levels of fruit and fibre intake.<sup>iii</sup> Those who consumed fast food were shown to have lower levels of Vitamin A and C.<sup>4</sup>



In conclusion, many studies have demonstrated the increasing levels of heart disease, stroke and diabetes in individuals who consume more fast food than those who do not. This is most probably due to the high levels of sodium, saturated fat and calorie content of these foods. By raising awareness and educating people about having a balanced diet consisting of both vegetables and fruit, the incidence of these diseases can be reduced. The adverse effects reduce the marginal physical productivity of labour which in turn reduces the overall output of the nation and hence reduction in the standard of livings of the country.

<sup>1</sup> Dictionary.com. Available from: <http://dictionary.reference.com/browse/fast+food> [Accessed 14/11/2011].

<sup>1</sup> Lin BH, Guthrie J and Frazao E (1999). "[Nutrient contribution of food away from home](#)". In Frazão E. *Agriculture Information Bulletin No. 750: America's Eating Habits: Changes and Consequences*. Washington, DC: US Department of Agriculture.

<sup>1</sup> Lynda Lampert. How Do Fast-Food Habits Affect Your Health Over Time. Available from: <http://www.livestrong.com/article/51725-5-how-do-fast-food-habits-affect-your-health-over-time/#ixzz1di9XLPTi>. [Accessed 14/11/2011].

<sup>1</sup> Diet and Exercise Guidelines. Available from: [http://www.lsuagcenter.com/en/food\\_health/nutrition/diet\\_exercise\\_guidelines/Fast+Food+Dulls+Appetite+for+Vitamins.htm](http://www.lsuagcenter.com/en/food_health/nutrition/diet_exercise_guidelines/Fast+Food+Dulls+Appetite+for+Vitamins.htm) [Accessed 14/11/2011].

## **Conclusion**

It was owing to the market strategies of the organization that led to a rise total revenue, net income and cash provided by operations by 6.4%, 19.5% and 10.3%, respectively. Thus, the null hypothesis is rejected and the alternate

hypothesis is accepted on the basis of data and information given above.

McDonald's being a fast-food restaurant business is monopolistically competitive in nature. Its franchise competes against a host of other similar establishments such as KFC, Jack-in-the-Box, Burger King and so many others both within the USA and in foreign countries. All of them sell quick meals at reasonable prices, the products offered are clearly differentiated which in the main characteristics of monopolistic competition.

McDonald's introduced "New Tastes Menu" to increase its profit. Such strategy might work in the short run but is not likely to have a sustainable impact in the long run. The reason being that its rivals will mimic the strategies and in the long run its abnormal profit will disappear. Need exists to quote an example when similar chain of events occurred in the year 1978 when McDonald's successfully introduced a new product called Egg McMuffin in breakfast. In response to this other rivals in the fast-food business introduced their own breakfast items which adversely affected McDonald's economic profits. Therefore, the manager of a firm in a monopolistically competitive market must evaluate its products periodically to ensure that it is differentiated from other products in the market to compete with its rivals or stay ahead of them. For product differentiation it is advantageous to slightly or totally change or introduce a totally different product from time to time. To have a bigger share of the market such companies spend quite a large amount on effective advertisements.

## **Policy Recommendations**

In the light of this analysis, it is highly recommended that organizations should continually react and adjust to changes in the environment in which

they operate. For effective decisions making organizations must constantly scan their environment to identify changes and prepare for it. It could be macro environment such as political, economic and social which are beyond their control, or microenvironment pertaining to the immediate environment of the firm.

Multinational corporations such as McDonald's must take into account social costs and social benefits rather than just internal costs and internal benefits e.g. the effect on the environment or the impact on the community of their policies when they open their outlets in other countries. Their policies should not clash with host countries customs, traditions or religious beliefs. They have to be very careful in their advertising techniques, different signs have different connotations in different cultures and societies. What is good and acceptable in the USA may be very offending in other countries.

Fast food is still a luxury in the third world countries, MacDonal'd's outlets and franchise should be located in relatively rich areas. The optimal **location choice** is also very important to earn maximum profit. Furthermore, **Product portfolio analysis** should be done to examine the existing position of the organization's products in their markets to enable them to make better decisions. Such analysis is the marketing planning process.

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