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VALUE CHAIN ANALYSIS OF MCDONALD

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ABSTRACT

This research abstract focuses on the value chain analysis and business model of McDonald's, a global food service retailer that serves approximately 70 million customers daily across almost 35,000 outlets worldwide. McDonald's primary revenue comes from franchising the majority of its locations, offering a wide variety of fast food at a low cost while expanding its business abroad. The inbound logistics involve receiving, storing, and utilizing primary material to make burgers and other menu items. The franchise formats include conventional franchise, developmental license, and affiliate. McDonald's marketing strategy focuses on developing menus that cater to regional tastes while conveying the message of delicious fast food at an affordable price. Technology plays a crucial role in the value chain, enabling opportunities for collaboration across members of the corporate value. The success of McDonald's competitive strategy depends on its capacity to understand its capabilities and the preferences of the clients, creating an effective and efficient value chain that adds to the operational operations of the entire business. McDonald's challenges include maintaining its market share and customer base in a competitive market while addressing the unintended repercussions of globalization, such as the worldwide overweight epidemic. Performance management is a critical instrument for assessing the organization's potential to stay in business over the long and short terms, measuring the desired outcome with the actual outcome in daily activities.

1. INTRODUCTION

McDonalds, one of the biggest food service retailers in the world, was founded over 8 decades ago. McDonalds has its headquarters in Illinois, US. It has roughly 35,000 outlets all around the world which serves around 70 million consumers everyday. It is recorded that, around almost 2 million people employed and it is operates in over hundred countries (Njihia, 2019). The business offers large selection of fast food, including, french fries, cheese burgers, chicken, hamburgers, and a variety of deserts.

Nearly all of the company's restaurants are franchised, and this is one of the company's primary streams of revenue. Additional revenue streams for the corporation include royalties and rent payments (Vignali 2001), as well as sales at company-owned restaurants. The most money that McDonald's has ever made was $ 27.5 billion, of which $ 5.5 billion was the profit. The massive food retailer has consistently of high sales and profits and they succeed to sale 100 billion burgers in 1990s (Gilbert and Veloutsou, 2006). The company's practice of launching new items to its menu which is intended to attract new consumer as one of the factors contributing to its success. One of McDonald's brilliant ideas is by offering the seasonal menu. The seasonal menu would attract customers to McDonald's to purchase them and when they come to the outlet, the customer would be able to look at other products as well. This marketing strategy thus serves two objectives at once (Rajawat et al., 2020). McDonald's has established itself as one of the best and most prosperous fast food chains in the world, with a powerful reputation and widespread brand recognition. McDonald's business strategy is to provide food to customers at a very affordable price while also making profit by raising the price of the goods and expanding the business internationally.

The idea of "Value Chain" refers to different business activities and ways involved with manufacturing an item or delivering a service (Harvard Business School, 2020). Each step of the lifespan of a commodity or service, from research and development to sales and everything in between, can be included in a value chain. By escalating the value offered at each stage of the chain, a company can be better positioned to share more value with customers while scooping up a greater portion. Value chain comprises of two main activities which are primary and support activities as shown in the figure 1.

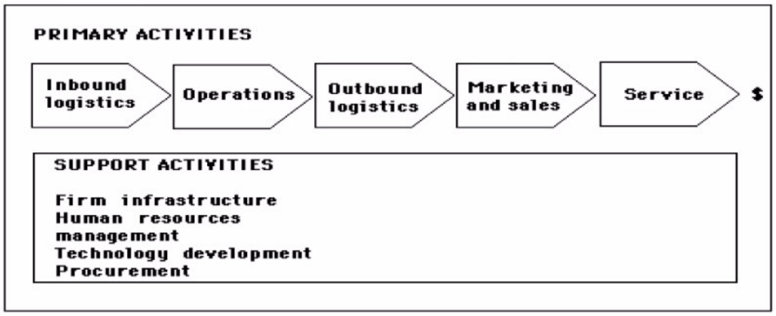

Figure 1. Machael Porter's Value Chain Analysis
Source: Porter, 1985

Value chain analysis is a framework to analyze the aids in recognizing business operations that could give value and supply the company with competitive gain. The McD's value chain analysis is displayed in Figure 2.

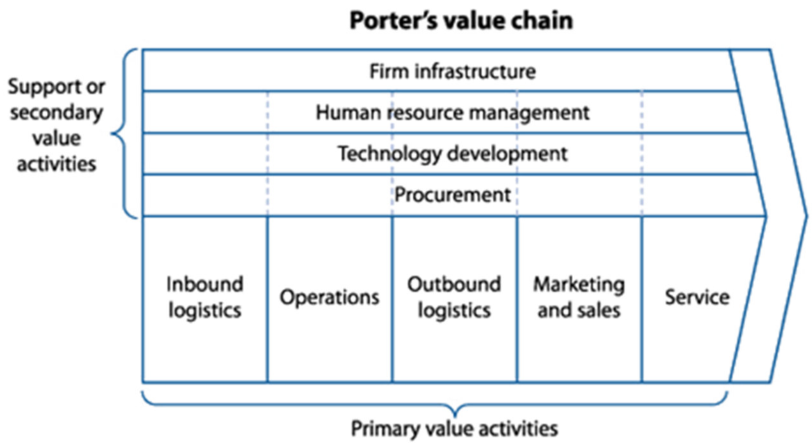

Figure 2. McDonald's Value Chain Analysis
Source: Porter, 1985

McD's inbound logistics constitutes receiving, storing, and utilizing primary commodity to make its burgers and the other menu. Over forty thousands McD's outlets are both company-owned and franchised. A number of 37,000+ locations, or ninety-three%, were franchised as of December 2021 (McDonald's Corporation, 2021). McD's franchise formats include the conventional one, developmental license and affiliate program, which differ in terms of royalty, licenseeand operational cost. As for the method of serving food to clients, which are included in McD's outbound logistics such as sit-down restaurants, drive-thru, counter-service outlets in food courts, ski-thru, on-the-go and home deliveries. The conservative ways of dining out in a restaurant is to order meals in a sit-down arrangement, which involves having a waiter or waitress take your order and bring your food.

McDonald's marketing plan is pushing the marketing theme of delicious fast food at low prices, by changes menu items for regional tastes and preferences which is based on their slogan or goals of the company. Cross-cultural differences are also taken into account while delivering the marketing message. McD's massively utilizes print and media advertising to reach representatives of the target client category with its marketing message. According to McD's Corporation in 2021, the company's commercial expenses from 2019 until 2021 is totaled $ 82 million, $ 330 million, and $ 83 million, respectively. This amount was spent for public relations, events, and experiences, in addition to paper and media advertising.

Besides primary activity, supporting activities also plays a vital role. For instance, the paradigm adopted by McDonald's was a product of the 1970s rather than the twenty-first century. It need to be shifted in order to follow the globalization and changes. Several years ago, McDonald's saw a turnaround in its logistics department. Now, franchise and corporate management utilize an online operating system to determine precisely what to buy, pack, and ship and how many trucks would be needed. Following the adoption of this technology, the company's European operations saw significant changes. They were able to save 60 minutes/week when they were able to cut the order time in half, and they were able to minimize raw disposal and inventory stock by 30% (Cheung, 2023). Which is good because the product life cycle is getting shorter and the competition is getting stronger each day. The company receives the deliveries at night so that workers are not occupied dodging carts and the trouble of parking big trucks in front of the restaurant since it is crucial to send the appropriate amount to each restaurant.

Technology is a crucial tool in this digitalization era. The role of technology in value chain enables opportunities for collaboration across members of the corporate value. It also makes it possible for networks to share or integrate electronic data. In order to meet client needs and increase profits, each chain's value needs to be changed and improved, following the change in the business and customer. This will also improve the performance of the business operation.

2. METHOD

A company's "value chain", as described for the first time by Porter, represents its value-adding processes that is based on its price strategy and cost structure. The effectiveness of a company's competitive tactic is proportional to its capacity to grasp both its own potential and the demands of client. The first step in performing a value chain analysis is to identify the key tasks that comprise the framework. The next step is to examine the potential for value generation through cost advantage or differentiation. Lastly, it is critical to pinpoint the strategies that are focused on the actions that will give the company the most sustainable and competitive advantages. The effectiveness with which a corporation handles the various value chain operations affects how profitable it will be, and the price that a customer is willing to pay surpasses the relative cost of the value chain activities (Kumar and Rajeev, 2016).

Based on the explanation above, it is clear that designing an effective and efficient value chain contributes to the overall company's operational activities. It has a linear correlation between both of them. For instance, McD's, as the giant fast food industry, in their inbound activity, it will involve lots of stakeholder in its daily operational activity. Various roles and capabilities are completed by other companies in their supply chain. By having a good value chain strategy, in this point is the supply chain activity, they can minimize the dependable of the company towards third party (other companies) to maximize their process. McD, for example, is well known for cultivating its own meat through contracted producers, preparing its own meat, making its own seasonings and herbs in contracted factories, producing its own potatoes and other vegetables through contracted producers, and transporting its own goods (McDonald's Corporation, 2021). McD will control processes that they are capable of managing in order to reduce reliance on other stakeholders and decrease expenses. Because of its backward vertical integration strategy, the fast food firm can reduce supply costs while maintaining quality control over its ingredients.

The value chain is now a more useful method for discovering and assessing company prospects as a result of the effects of globalization for purchasing and marketing purposes (Walters and Lancaster, 1999). E-Procurement System applied by McD is the example of why they succeed to achieve a efficient supply chain management may largely be attributed to their use of the E-Procurement System. It is so successful that it serves as the cornerstone for all logistics and the administration of McD's whole supply chain. The 2001 method that allows all McD's franchises globally to acquire every thing needed to operate their restaurants. The procurement platform enables company owners to obtain supplies and materials at a reduced cost, lowering costs for McD's while also making it faster and more convenient for franchisees.

A framework for creating value development strategies in the business's activities is provided by the value chain. In order to enhance value generation, businesses should concentrate more on certain important areas. For instance, it might improve consumer value, improve the effectiveness and efficiency of procedures, and reduce resource usage. For instance, McD's uses baskets, which can help them save some money on packing when they resupply their inventory. It is also a long-term financial security for the company (McD). In the same time, customer satisfaction is also increased, which is impacted by all value chain activities, whether directly or indirectly because money saved by the company can be used to improve other areas. They may therefore maintain their consumer's satisfaction and loyalty by continually monitoring value creation along the value chain.

3. RESULT AND DISCUSSION

Despite the fact that globalization has obviously brought about some great improvements in society, the worldwide over weight pandemic is being driven by unintended consequences of globalization (Pan et al., 2012). Consequently, nowadays society tend to choose a healthier lifestyle which fast food (and another process food) is no longer their option. Global public health policies at many levels are required to develop environments that support healthy food consumption and foster corporate social responsibility in order to confront the fast growing obesity epidemic. In developing nations, particularly in Asia, where wealth and urbanization are increasing exponentially and the food landscape is changing at a similar rate, this is of the utmost importance. In addition to promoting the globalization of fast food, globalization has expanded the number of huge multinational supermarkets, which are replacing local farmers and markets for fresh produce while increasing access to packaged, processed, and sugary foods (Popkin, 2006). This is a truly noxious challenge for McD. They have to maintain their customer or even grow their market in order to keep surviving due the more and more competitors.

Thus, maintaining its quality of products is a must in order to keep the customer retention. Quality management should be on the top list. The purpose of quality management is to match McD's goods to the preferences and quality expectations of the targeted customers. The operations approach includes the regulations and mechanisms to ensure that such matching occurs at company-owned, franchised, and licensed sites. Quality consistency is required for product standardization.

When assessing an organization's potential to stay in business over the long and short terms, performance management is a crucial instrument. Plotting target for the wished results and comparing the actual results to the targets is the traditional method of evaluating performance. Although McD's uses alternative methods of performance evaluation, including social corporate responsibility and the extent to which customer needs are met along with better customer service, quantitative performance measures heavily rely on conventional financial performance evaluation systems, such as ROI and ROE. Such strategies are insufficient and inappropriate since they lack a strategic focus, particularly in the fiercely competitive fast food sector.

It is advised for the organization to establish a performance measure for determining the levels of employee engagement with the organization, even though social corporate responsibility in the context of its ability to deliver value to people is crucial. Employees that are more engaged tend to be more productive. Consequently, the organization performs better as a result. This prevents the organization from experiencing inefficiency and ineffectiveness in achieving its goals and objectives.

Performance can be measured by contrasting the desired outcome with the actual outcome in daily activities, such as in a restaurant. For instance, operations managers will collaborate with the restaurant teams to achieve the following operational goals: sustaining quality, service, and cleanliness standards while also fulfilling health department criteria, and surpassing McD's ROIP objectives; and releasing the new initiatives, goods, and equipment on time. One real example that can be easily measured is the punctuality of the delivery services. Fast delivery can be measured, when they said that the delivery will be arrived in 30 minutes then Operational manager can record the actual delivery time of each delivery every month and measure the fulfillment rate of success on time delivery. This is just one simple example on how the operational manager can use a simple tool or method to measure the operational performance.

McD's Corporation's operations management (OM) ensures the company's position as the world's biggest fast-food restaurant chain. For example, to lower costs and enable competitive selling prices, the food service industry improves production processes through process and capacity design, a component of operations management. The performance of operations management has an impact on the achievement of McD's business mission and vision statements. The whole business success of the restaurant corporation is governed by its operations strategy and related strategic planning.

The study conducted a value chain analysis and business model of McDonald's, a global food service retailer with almost 35,000 outlets worldwide. The primary revenue for McDonald's comes from franchising its locations and providing a wide variety of fast food at a low cost while expanding its business abroad. Inbound logistics involve receiving, storing, and utilizing primary material to make burgers and other menu items. McDonald's offers franchise formats such as conventional franchise, developmental license, and affiliate.

McDonald's marketing strategy focuses on developing menus that cater to regional tastes while conveying the message of delicious fast food at an affordable price. The value chain is enabled by technology, which offers opportunities for collaboration across members of the corporate value. The success of McDonald's competitive strategy depends on its capacity to understand its capabilities and customer preferences and creating an effective and efficient value chain that adds to the operational operations of the entire business.

The challenges that McDonald's faces include maintaining its market share and customer base in a competitive market while addressing the unintended repercussions of globalization, such as the worldwide overweight epidemic. Performance management is a critical instrument for assessing the organization's potential to stay in business over the long and short terms, measuring the desired outcome with the actual outcome in daily activities.

Overall, the study shows that McDonald's business model has enabled it to become a global leader in the fast-food industry, with a focus on delivering high-quality food at an affordable price. McDonald's has

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also been able to leverage technology to create a collaborative and efficient value chain, which has contributed to its success. The study highlights the importance of performance management in assessing an organization's potential for long-term success.

Discussion

The study on the value chain analysis and business model of McDonald's highlights various factors that have contributed to its success as a global food service retailer. One of the critical factors that have enabled McDonald's to become a global leader in the fast-food industry is its primary revenue model of franchising its locations. This strategy has allowed McDonald's to expand its business rapidly while minimizing operational costs.

The inbound logistics of McDonald's involve receiving, storing, and utilizing primary material to make burgers and other menu items. This process is carried out efficiently to ensure that customers receive their food quickly, which is critical in the fast-food industry. Moreover, McDonald's has various franchise formats, such as conventional franchise, developmental license, and affiliate, which have contributed to its global success.

McDonald's marketing strategy is also an essential factor in its success. The company has been successful in developing menus that cater to regional tastes while conveying the message of delicious fast food at an affordable price. By doing so, McDonald's has been able to appeal to a broad range of customers worldwide, which has contributed to its success.

Technology plays a crucial role in McDonald's value chain, enabling opportunities for collaboration across members of the corporate value. McDonald's has leveraged technology to create a collaborative and efficient value chain, which has contributed to its success. For instance, the use of technology has enabled McDonald's to streamline its supply chain, improve inventory management, and enhance customer experience.

However, McDonald's also faces various challenges that could affect its long-term success. One of the challenges is maintaining its market share and customer base in a highly competitive market. McDonald's faces intense competition from other fast-food chains, which makes it critical for the company to innovate and develop new products to stay ahead.

Another challenge that McDonald's faces is addressing the unintended repercussions of globalization, such as the worldwide overweight epidemic. McDonald's has been criticized for contributing to unhealthy eating habits and obesity in some parts of the world. The company has responded to these criticisms by introducing healthier menu options and promoting a healthier lifestyle.

Finally, the study highlights the importance of performance management in assessing an organization's potential for long-term success. By measuring the desired outcome with the actual outcome in daily activities, McDonald's can identify areas for improvement and make necessary adjustments to ensure its long-term success.

In conclusion, the study on the value chain analysis and business model of McDonald's shows that the company's success can be attributed to its primary revenue model, efficient inbound logistics, effective marketing strategy, and the use of technology to create an efficient value chain. However, the company also faces challenges, such as intense competition and addressing the unintended repercussions of globalization, which could affect its long-term success. McDonald's needs to continue innovating and adapting to changing market trends to maintain its position as a global leader in the fast-food industry.

4. CONCLUSION

The conclusion of this reseach is McDonald's is a global food service retailer that serves millions of customers daily across its numerous outlets worldwide. Its primary revenue comes from franchising, offering a wide variety of fast food at a low cost, and expanding its business abroad. To remain competitive, McDonald's focuses on value chain analysis, which enables it to identify commercial operations that may bring value to the firm. Technology plays a crucial role in the value chain, enabling opportunities for collaboration across members of the corporate value. McDonald's challenges include maintaining its market share and customer base in a competitive market while addressing the unintended repercussions of globalization, such as the worldwide overweight epidemic. Performance management is a critical instrument for assessing the organization's potential to stay in business over the long and short terms. Finally, designing an effective and efficient value chain benefits the entire operational operations of the organization.

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