

McDonald's – Business Strategy in India

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Case Study Abstract

This case study discusses how McDonald's India managed to buck the trend in a struggling economy, its early years and business strategy to get more out of its stores in India. The case also briefly discusses how McDonald's adapted to local culture in India, its localization and entry strategy, its strong supply chain and pricing strategy.

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Case Questions for Discussion

1. McDonalds has become the poster brand for recession-resilient business. What is McDonald's doing right in India? What elements of its business strategy are working for it and how does it manage to get more out of its stores?
2. Does local adaptation contribute to business growth in a country? Explain McDonald's efforts to adapt to the local culture in India. What challenges did McDonald's face in India?
3. Have you ever visited a McDonald's store? Compare and contrast your experience with another quick-service restaurant or fast-food joint you visited earlier. How can McDonald's improve? Should it alter its strategy?

Case Updates/Snippets

- **World's leading food service retailer** – McDonald's has more than 32,000 restaurants serving over 50 million customers each day in more than 119 countries.
- **McDonald's competitors in India** – McDonald's competes with fast food chains like Pizza Hut, Domino's Pizza, Papa John's, Nirula's and KFC in India.
- **McDonald's Supply Chain** – McDonald's has a dedicated supply chain in India and sources 99% of its products from within the country. The company has strong backward integration right up to the farm level.
- **Quick service restaurants in India** – By October 2009, McDonald's India had more than 170 quick service restaurants in India. Domino's Pizza, which began operations in India in January 1996, has over 275 stores across 55 cities in the country. KFC has 46 restaurants across 11 cities in India. (KFC is one of the 5 brands owned by Yum!. KFC is a \$12 billion global brand and a leading quick-service restaurant (QSR) in many countries.) Nirula's, one of India's oldest food chains (completed 75 years in service in March 2009), has a network of around 62 outlets in five states across Northern India. Nirula's, established in 1934 has interests in hotels, restaurants, ice cream parlours, pastry shops and food processing plants. Nirula's was the first to introduce burgers in India.
- **Food Industry in India** – In India, food industry and particularly informal eating out market is very small. In India, over quarter of a million customers visit McDonald's family restaurants every day. The Indian fast food market is valued at \$1-billion (Rs 4,547 crore) approx.
- **MFY (Made for You) food preparation platform** – MFY is a unique concept (cooking method) where the food is prepared as the customer places its order. All new upcoming McDonald's restaurants are based on MFY. This cooking method has helped McDonald's further strengthen its food safety, hygiene and quality standards. McDonald's has around 10 MFY restaurants in its portfolio.

- **How McDonald's manages to keep its prices down?** – Fast-food chains face a tough time balancing between margin pressures and hiking prices which can hurt volumes. Consequently, the chains have to increase rates or rework their strategies. Affordability has been the cornerstone of McDonald's global strategy. Some of its measures to achieve this include – *Bulk buying, long-term vendor contracts, and manufacturing efficiencies*.
- **McDelivery Online** – In India, McDonald's first launched home delivery of meals in Mumbai in 2004. McDonald's now has plans to launch web-based delivery service in India (across 75 McDelivery cities) in 2010, a pilot for which has already been tested by it in Hyderabad. The company hopes to add 5 per cent to sales via Web delivery. McDonald's web-based delivery model will be based on serving the customer quickly wherein the drive time does not exceed seven minutes because its food has to be eaten within ten minutes of preparation. The footfalls in India are amongst the highest in the world, but the average bill is amongst the lowest. At present (March 2010), Domino's Pizza (operated by Bhartia Group-promoted Jubilant Foodworks under a master franchise agreement) has a 65% market share in the **home delivery segment**.
- **Most Preferred Multi Brand Fast Food outlets:** In 2009, McDonald's India won the CNBC Awaaz Consumer Awards for the third time in the category of the Most Preferred Multi Brand Fast Food outlets.
- **McDonald's India in 2010** – In 2010, McDonald's India plans to open 40 more outlets. The company has also earmarked a budget of Rs 50-60 crore to market its new products and initiatives for consumers. Its new marketing campaign is titled – '**Har Chotti Khushi Ka Celebration**' – in other words 'celebrate little joys of life' where it positions McDonald's as a venue for enriching life of consumers. In South India, McDonald's has 29 outlets and plans to add 10 more by end of 2010.
- **Taco Bell in India** – In March 2010, Taco Bell, the Mexican specialty chain owned by US-based fast food brands operator Yum! Restaurants launched its first outlet in Bangalore, India. The company which also operates brands like Pizza Hut and KFC plans for contract farming to open up to 100 outlets by 2015 and also expand into Tier-II and -III Indian cities eventually.
- **Local Vegetarian Menu:** In India, McDonald's does not offer pork or beef-based products. Its menu is more than 50 per cent vegetarian. The fast food retail chain has separate production lines and processes for its vegetarian and non-vegetarian offerings.
- **High Real-Estate costs in India:** In many countries, in a Quick Service Restaurant (QSR) a customer comes in, buys and then leaves. This is known as a **revolving door concept**. But an Indian customer believes in a **dine-in culture**. This adds to the real estate costs which goes as high as 20-25 per cent as compared to 10-15 per cent globally. The cost of opening a new McDonald's restaurant in India costs about 3 crore rupees.
- **The most important meal for QSRs- Morning Meals (Breakfast):** According to market research company, the NPD Group, breakfast accounted for nearly 60 per cent of the restaurant industry's traffic growth over the past five years in the U.S. Quick service restaurants sold 80 per cent of the over 12 billion morning meals served at US restaurants for the year ending in March 2010.
- **OOH Branding:** According to Rameet Arora, senior director – marketing, McDonald's India (West and South), McDonald's India may be the largest out-of-home branding (OOH) in the country. McDonald's India has restarted OOH (out-of-home branding) after a 7 to 8 year break to reach to their target group.

- **Employees and Customers:** In India, McDonald's employs 5,000 people and serves half a million customers a day via its 169 family restaurants. (Update) – McDonald's India employees number 12,000 approximately (most of them students). McDonald's has 85,000 employees and serves 2.5 million customers a day in the UK.
- **KFC – New Menu “Streetwise”** – In February 2011, KFC, the fast food retail chain announced a new menu called “Streetwise” to offer products at more affordable prices to attract the college crowd. KFC has around 108 stores in India and Streetwise would help it compete better against McDonald's youth brand offering in India (products priced at Rupees 20). KFC's products were typically priced between Rs 65 and Rs 500 but with the new menu – between Rs 25 and Rs 100.
- **New Business Channels** – To boost sales, McDonald's is looking at new business channels instead of rapid expansion. New business channels include home delivery, kiosks, breakfast, extended hours and drive-throughs. As per estimates, home delivery can increase store sales about 15% and drive throughs by 50%.
- **Spending on food:** According to Euromonitor International and Credit Suisse Emerging Consumer Survey, Indian people spend less (\$11) compared to the Chinese (\$60) on fast food. Indians spend approx 23% of their earnings and the Chinese approx 20% of their earnings on food. The U.S. spends less than 15% on food.
- **Local Sourcing:** By 2014, McDonald's India estimates that it would source 50,000 Metric Tonnes (as compared to the current 30,000 MT) of potatoes from McCain Foods Pvt Ltd. in India. McCain has been working with more than 800 farmers on approx. 4000 acres of land across Gujarat (West India) under contract farming of potatoes.
- McDonald's India's total investment in India would touch 1500 crores by 2014. In June 2012, McDonald's announced that it would open around 250 new restaurants in the next 3 to 5 years with an investment of 750 crore rupees.
- **Cluster wise expansion strategy:** McDonald's adopts a cluster wise expansion strategy in India. Accordingly, McDonald's concentrates and consolidates stores in one region before moving to another. The company plans to begin with East Indian region (Kolkata) and then move to cities in other regions like Chandigarh and Ludhiana.
- **All-vegetarian restaurants in various pilgrimage sites:** McDonald's plans to open all-vegetarian restaurants (by middle of 2013) at various pilgrimage sites across India. To begin with, the company plans to target pilgrims at sites like Vaishno Devi in Katra, Jammu and Kashmir and at the Golden Temple in Amritsar. It already has one outlet in Katra.