

McDonald's Success Story in India

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ABSTRACT

McDonald's Corporation the world's largest chain of Fast food restaurants a symbol of globalisation founded by Ray Krock serves around 68 million customers daily in 119 countries. A multinational company, McDonald's manufactures products in many countries and sells them around the world. The company's success can be attributed to **Glocalization**(Globalization + Localization) where the company has its standardisation with a certain degree of localization suiting the cultural needs of the customer. A McDonald's restaurant is operated by a franchisee, an affiliate, or the corporation itself. The company primarily sold hamburgers, cheeseburgers, chicken burgers, French fries, breakfast items, soft drinks, milk shakes and desserts. The company introduces new products and expands the menu according to the changing taste and preferences of the customers. McDonald's initiates development of products and services to adapt to different locales to ensure its global brand, which improves global economy. McDonald's is a clear sign of globalization and its existence is proved everywhere we go, be it in Europe, Asia or America, there will always be a McDonald's store around every corner! In this article we study in detail the entry of McDonald's into India, Glocalization, Price reduction strategies adopted to bring in Branded Affordability, the efficient supply chain, operations, critical success strategies, Innovation, sustainability and Growth Plans. The uniqueness of McDonald's leading to its success is also discussed.

Introduction

The main purpose of this work is to present a detail insight into the success story of McDonalds in India. It was as early as 1989 even before the New Industrial Policy of 1991 was introduced the International Team of McDonalds visited India to identify opportunities for entry into a highly traditional and conservative market. As the company was in the process of researching and devising entry strategies the Government of India announced the New Industrial policy of 1991. This

paved way for the company and there was a need to fasten its efforts to develop its entry plan into India. During 1991 to 1992 the company had set up a specialised team to understand the regulatory issues pertain to FDI in India. The FDI for this fast food restaurant chain was possible through a Joint venture with two companies in 1994. The market for the West was targeted through a Joint venture with Hardcastle Restaurants and the market for the North was targeted through a Joint venture with Connaught Plaza Restaurants. As the company was in the

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process of establishing, it already started training its employees and also setting up the supply chain the most important part of a food chain. With strenuous efforts the company was able to open shop in 1996 with its first store in Delhi and second store in Mumbai both during August 1996. With a very humble start the company currently operates more than 300 restaurants in India. The strong foundation laid by Ray Kroc continues even today with the company in its vision and strong commitment in evolving into a value driven brand and recognises the brand affordability as an important proposition for its sustainability in a market like India where majority of the customers belong to the middle class giving them the blend of pure Indian taste at an affordable price. The company is in the path of Continuous Innovation to strengthen its business model in India and to keep evolving according to the customer needs.

Glocalization

McDonald's is one of the World's popular and valuable brands and it has mastered the global market in quick service restaurant. As the company started expansion in other countries each country posed a new challenge for McDonald's in maintaining or improving their position. The biggest challenge for McDonald's in India was to maintain its global identity within the country's diverse customs and culture. A new word **Glocalization** is coined to combine global standards adopted by McDonald's but still bringing in a degree of localization. The company follows global standards across the globe in all processes but its strength in bringing in localization through innovation for its success in every country it operates.

Initially, India being a very traditional market with highly conservative consumers has seen a

tremendous change later. The diverse Indian consumption patterns are slowly converging with the impact of globalization. Today India has the youngest population profile very significant when compared with other world countries. It is the young people who are influencing their parents spending or spending their own money. Entertainment, clothing and restaurant dining are categories that are witnessing maximum rise in consumer spending. From being a nation of savers now the country is altering itself into a nation of spenders. With increase in disposable income there is an active shift towards consumerism. The habit of more eating out has set in and women are changing and reorganizing their household chores. Ready to eat food and family food service restaurants are becoming popular.

McDonald's Corporation started in 1948 in California carries one of the world's most well-known valuable brands and dominates the global market in quick service restaurant. As the company started expanding into other countries each country posed a new challenge for the company in maintaining and improving its position. The biggest challenge for the company in India was to maintain its global strategy in the stint of diversity and strong customs and culture. The main focus points for the company in India were to tackle customers, suppliers, Joint venture partners and Government along with maintaining its global brand image.

The main cited reason for McDonald's success is the quality standards they are maintaining all over the world despite the locational constraints and customization. **Think Global Act Local** strategy was adopted by the company to customize their marketing strategies based on cultural, economic and socio-political factors in India. Adaption and execution of this strategy made the company capable of adjusting

their products according to the preference of the local customers in India. Beef being the integral part of the menu for McDonalds in the West it was difficult for the company to formulate a menu without beef in India. With lot of efforts the company offered a menu for India that did not have beef and pork items. Added to this, all the vegetarian products, even the mayonnaise in vegetable burgers, were egg-less and 100% vegetarian. To adapt to the cultural differences between religions, the company classified the cooking tools and employees for the vegetarian and non-vegetarian sections.

India being a very ancient country with a strong culture and customs McDonald's had to consider the cultural, economic and socio political factors in India. The country has six major religions namely Hinduism, Buddhism, Sikhism, Islam, Jainism and Christianity with diverse beliefs and value systems. Religious beliefs, customs and value system plays a significant role in the customer's preference for food and dining. The company's menu customization for India was very clear that products offered in India will not contain beef and pork. As the company has a strong philosophy of being sensitive to the local food habits and cultural preferences, it was in India for the first time in the world McDonald's decided to abstain from serving beef and pork products. A Major portion of the Indian menu was developed locally with the help of franchisees ensuring complete segregation of the vegetarian and the non-vegetarian products starting from food processing to customer service. McDonald's commitment to the Indian customer is evident from the fact that the company uses local spices and chillies to develop special sauces and mayonnaise which are particularly eggless. The cheese too is vegetarian and the company decided to give equal weightage to vegetarian and

non-vegetarian products in the menu. Non hydrogenated cooking oil was used as a medium for cooking.

The company's introductory products were burgers, fries, vegetable nuggets, beverages and nuggets. It was in 2001 the company came out with a unique product for India which has the highest sales among all McDonald's products the **Aloo tikki burger**. It was the effort of the Indian Research and Development Team which put the aloo tikki a traditional Indian food into a bun and created a trade mark product for McDonald's the McAloo Tikki. Crafted specially for India, McAloo Tikki continues to woo Indian hearts. The company describes the product as a combination of a potato and peas patty with special Indian spices coated with breadcrumbs, served with sweet tomato mayo, fresh onions, tomatoes in a regular bun. This McAloo Tikki outsells every other McDonald's product in India. The success of the McAloo Tikki in India motivated McDonald's to introduce the product in the Middle East and in Singapore.

This is how McDonald's re-engineered its operations in India to address the local taste and also the special requirements of vegetarians. McDonald's further reinforced the branded affordability mantra via the introduction of the Happy Price Menu which starts at Rs. 25 only. The company also ensures vegetable products are kept separate throughout the various stages of procurement, cooking and serving. The other products in the product line are Filet-O-Fish, Chicken McGrill, McVeggie, Veg Pizza McPuff and Chicken McNuggets. Chicken nuggets were introduced in 2008 and McEgg was introduced in 2012. The company also serves Wraps, Fries, an assortment of Sundaes, Soft Serve and refreshing beverages such as Ice Tea & Cold coffee.

The continuous existence and expansion of McDonald's in India shows its success in a highly orthodox market with very rigid eating habits and traditionally very Indian. The company introduced the concept of Family Dining restaurant especially for India. McDonald's survival in India is only due to the complete understanding of the Indian economy.

Pricing – Branded Affordability

The current generation of Indian customers are different from the previous generation of Indian customers. For the previous generation value for a product was related only with the price, but for the current generation value for a product requires a combination of price and quality. Companies which are capable of creating value with a blend of price and quality are successful in the Indian market. The Indian customers are most discerning and also have a very high degree of valueorientation. Even Companies selling luxury goods have to formulate unique pricing strategies for satisfying an Indian customer.

Initially when the company commenced operations in India during 1996 McDonald's was perceived as an expensive brand. The company had to go in for price reduction strategies for each of its products. India is considered as a price sensitive economy and a major portion of the Indian Consumers belong to the lower and middle income groups and McDonald's had to formulate a suitable pricing strategy that can facilitate a high volume of consumers. The customer relates value more to the price and sometimes a low priced product may be considered to be of an inferior value. Although providing value to the Indian customer is the key, price elasticity is studied before fixing the price. One of the reasons for McDonald's success is due to its clear understanding of the Indian economy. Customers

prefer products that are more talked about and they also have their own perception of what a product is worth.

In India McDonalds classified products based on two pricing strategies. One is the Branded Affordability (BA) and the other is the Branded Core Value products (BCV). The BCV products consists of the high priced products like the McVeggie and McChicken burgers that cost Rs 50 to 60 and the BA products include McAloo tikki and Chicken McGrill burgers which cost Rs20 to 30. These strategies were followed to satisfy consumers which different price perceptions. BA was launched in 2004 and the objectives were to target college going students and families, to become the favoured lunch option for on the move executives and to improve sales during the sluggish parts of the day. For BA the company launched four burger products at Rs.20 and one soft serve for Rs.25. From 2011 the Happy meal was priced starting at Rs.69. The McAloo Tikki was reduced from Rs.25 to Rs.20 and the sales increased by 35%. The chicken Mc.Grill was reduced from Rs.28 to Rs.20 and the sales increased by 22%.

McDonald's launched a campaign for BA for positioning its products. The campaign communicated and positioned McDonald's as a provider of great value by offering a quality product in a clean environment at an affordable price. The company says with McDonald's there is no compromise as the customer can get a lot for a little and offering value to the customers is a promise. The company through its press releases on BA tried to communicate to its audiences the power of affordability and positioned McDonalds as a fun place. McDonald's had further reinforced the BA mantra by introducing the **Happy Price Menu** which starts at Rs. 25.

Supply Chain Management

Even before its entry into India McDonald's conducted four years of research to explore supply chain to develop its cold chain infrastructure for all its restaurants. As the company considers quality as its prime importance, it sets quality standards for all its suppliers. Globally McDonald's wanted to maintain a close relationship with its suppliers and also harnessed the spirit of entrepreneurship by encouraging local companies to supply to the Multinational. The unique cold chain of McDonald's is an innovation in food supply chain

which mutually benefitted the farmers and the customers. The farmers were able to get the best price for the produce and the intermediaries in between were eliminated. The customers were able to get the products fresh at a great value due to the quickness in supply chain.

The process of supply chain involved transfer of state-of-the-art food processing technology, improving the quality standards and creating world class manufacturing facilities in India. This was the first step towards creating the unique 'cold chain'. The company pioneered the cold chain across India which helps to maintain freshness and nutrition in every product.

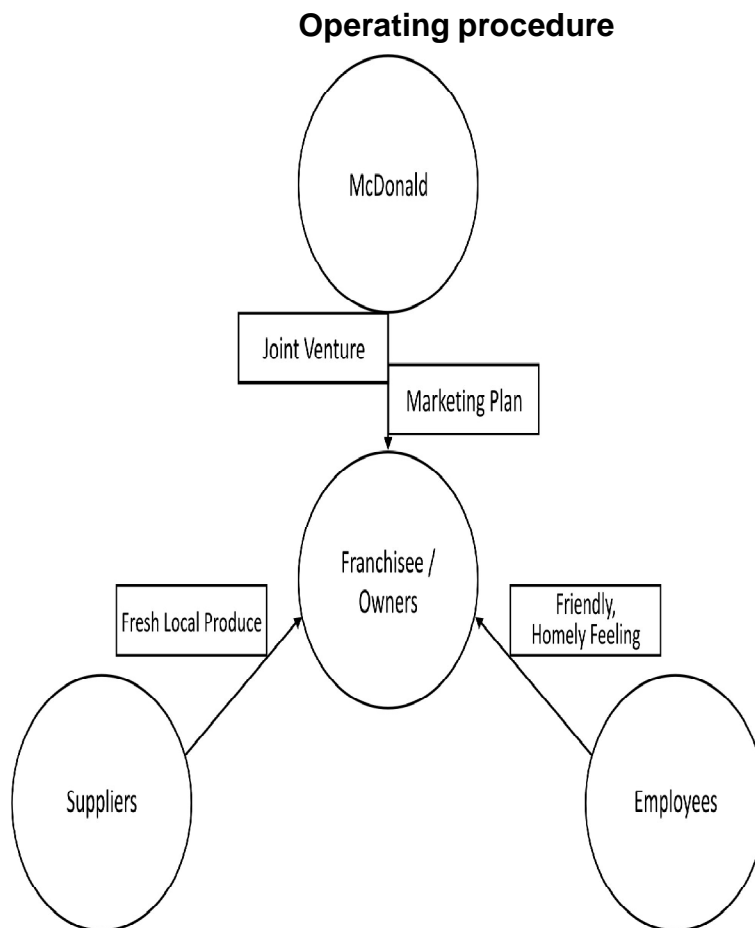


Fig. 1 : Operating procedure inside the store

Lean Philosophy: McDonald's uses Lean manufacturing which is also called as "Just in Time" (JIT) Technology. It is about meeting the demand instantaneously with perfect quality and no waste. It does not have over stocking and over production. There are seven sources of waste which Lean tries to eliminate. They are:

Over Production: The raw material stock of patties, salad, ingredients and other side dishes are prepared beforehand and kept ready for assembly which helps in reducing the assembling time. The restaurant does the assembly of the burgers as and when they are ordered by the customers. The duration of an assembly is less than 3 minutes. Hence Just in Time assembly reduces the risk of over production.

Waiting Time: Advanced technology has helped McDonald's to follow "made to order" process. This is possible by reducing the production time and slashing the waiting time for the customer. The company trains workforce to acquire multi skills which makes them gain the expertise to assemble the order in time.

Transport, Process, Motion: McDonald's designed a speedy system based on the success of car assembly line. The system brings the entire operations under one roof and each worker is allotted a specific task. The assembly happens next to the customer order counter which reduces wastage due to transfer and material handling. The assembly line eliminates unnecessary processes and each task is simplified to ensure value addition throughout.

Inventory: JIT minimizes raw material inventory and totally eliminates finished goods inventory in McDonald's. A sophisticated order system for raw material inventory and efficient management of order based assembly brings in effective management in the process throughout the supply chain.

Defective: Lean Management brings in a zero defective system as the staff are trained to maintain the highest quality standards. It is always First In First Out (FIFO) technique which is followed for inventory utilization so that the customer always gets fresh food

The company practices lean involving the suppliers, store operations team and the managers to bring in continuous quality improvement which brings in perfect quality and zero wastage.

Critical Success Strategies

"The basis for our entire business is that we are ethical, truthful and dependable. It takes time to build reputation. We are not promoters. We are business people with a solid, permanent constructive ethical programme that will be in style years from now even more than it is today."

As envisioned by the Founder Promoter of McDonald's Ray Kroc in 1958. The company has reached greater heights than he expected. The reasons for the company's success are discussed as follows:

Product: The Company's focus is on providing consumers with tasty and nutritious quality food and beverages which can be consumed any time during the day and night. Focus is on products which exactly suit the requirements of the consumers. The company's market research team is highly active and helps in understanding the customers' requirements and the change over time. The product standards are global but still designed to suit the local customers. A high degree of Glocalization is followed in India to

develop a diversified Indianised product range focussing more on the vegetarian products and the happy meal focussed for the children. Special sauces and local spices were used in products exclusively introduced in India like the McAloo Tikki Burger and Pizza McPuff and these products gained a very high level of popularity that they were exported to Middle East.

Price: In India a major percentage of the population belong to the middle income group. The success behind a food service restaurant is in positioning its products affordable for the middle income consumers and also to the affluent consumers. This is the reason why McDonald's classified its product range into two categories in India namely the BA and the BCV. The BCV products include the McVeggie and McChicken burgers that cost Rs.50 to Rs.60 which the affluent consumers may prefer and the BA products consists of McAloo Tikki and Chicken McGrill burgers which cost Rs.20 to Rs.30 preferred by middle income consumers. This has been done to satisfy consumers with different affordability and different price perceptions.

Target Customers: McDonald's values customer's expectation at the core of all they do. The commencement was at the point where the company wanted to change the Indian customer's perception about foreign goods and remove the discomfort they had about new products introduced. The company wanted to position itself as fully Indian and also as a company promoting family values and culture. Indian customers have a high degree of Family orientation. The emotional attachment is more towards the family and the children and there is a very little focus towards individualism. Brands

that identify and support family values become popular and are easily accepted by the Indian customers. McDonald's rightly identified the emotional quotient of an Indian consumer and positioned its products for the family and children. The company designed and projected itself as a food service family restaurant barred smoking and alcohol and the prime focus was children. The happy meals were targeted only for children and small toys are given along with the meal. Happy Meal being an introductory product even today is the most wanted one by children. These two strategies adopted by the company were very successful in bringing in Consumer Delight for the Family and Children.

Process: The Company educates the customers about the content of every product and allows customers for extensive kitchen tours. The McDonald's kitchen is completely transparent. The whole process of frying and assembly is visible to the consumers. This system introduced in India is the first in any market for McDonald's. The company has a particular system where a customer can register with the company and can become a member of the Inspection Team. As a member the customer can view and judge the quality and hygienic standards at McDonald's. He is also expected to check the ingredients used in food and submit a report. The company takes the valuable feedback from the customers and brings in the necessary changes as and when required but very promptly.

McDonald's philosophy: McDonald's philosophy of QSCV (Quality, Service, Cleanliness and Value) is the main factor behind the company's success, high brand recognition and its service to the customers in India. Following its philosophy of giving prime importance to local food and cultural preferences,

India was the first country in the McDonald's system where it served non-beef and non-pork products. More than 70 percent of the menu in India has been locally developed with complete segregation of vegetarian and non-vegetarian products. The segregation is maintained at all levels of the store commencing from the kitchen, assembly to the restaurant. The company also pioneered the establishment of Cold Chain across India which helps maintain freshness and nutrition in every product.

Innovation, Sustainability and Growth Plan

Franchisee Business Model: 70% of the restaurants worldwide are owned and operated

by independent local businessmen and women. McDonald's operates through an Innovative business model which is depicted by a 3 legged stool consisting of owners/franchisees who are the operators; secondly the suppliers and thirdly the company employees. The key to the success of the 3 legged model is the balance of interest among the three groups. The model focuses on an innovative strategy where a Joint venture is signed with a local partner and the local partner will be the franchisee. The local partner will develop the marketing plan for the local market due to their better understanding of the customers than the MNC. The employees are also local and they assist in establishing a friendly and at home feeling and a corporate image which is a major reason for McDonald's success in India.

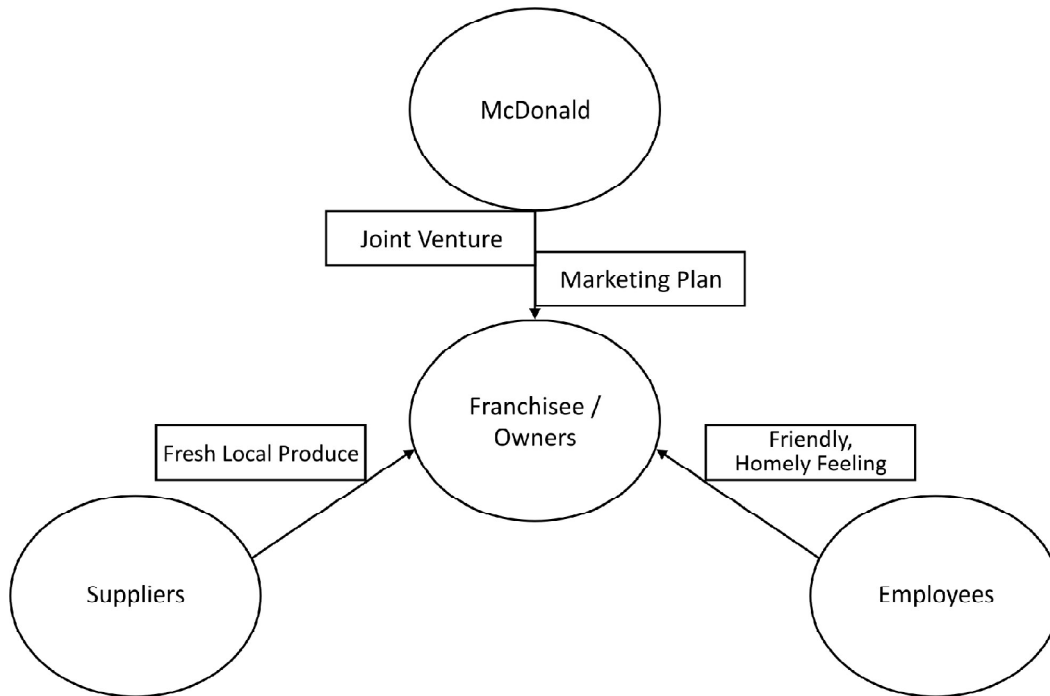


Fig. 2 Three Stool Business Model of McDonald's

Glocalization: McDonald's follows global standards across all its restaurants which will help in avoiding mistakes and reduces cost but at the same time the likes and preferences, culture and habits of the local customers are taken care.

Branded Affordability: The Company reinforced the BA through its Happy Price Menu and the marketing initiative "I'm lovin' it" launched in October 2003 which was funky and funny and show cases that McDonald's is overall a great place, at a best price restricted not only to its products, but also the experience. The McDonald's products were initially not targeted for youth but with the launch of the Happy Price menu the youngsters were tapped.

Speed of Operations: McDonald's one minute service guarantee attempted to project its reputation as a fast, friendly and an accurate service restaurant. McDonald's also functions on models that drive convenience and create unique differentiation like Mc Home Delivery, Drive thru, Breakfast Menu, high ways and extended hours.

Flexibility: This is also an important reason for McDonald's success among competitors. The company has a very high degree of customer loyalty due to its product selection which is highly flexible to the culture, taste and preferences. Because of quality standardisation the company is flexible to supplies from local suppliers.

Product Innovation: Consumer research revealed that more products are required in the vegetarian menu of McDonald and the company consciously addressed this need of its customers. The company started with the introduction of core products in its menu when it entered operations in India. The products consisted of Burgers, Fries, Vegetable nuggets,

Beverages and Desserts. In 1998 the local research team designed an innovative product exclusively for India the Aloo tikki burger called the McAloo Tikki and then the chicken kabab burger. In 2001 chicken maharaja, pizza McPuff, wedges and cone was launched. The year 2002 saw more innovations with the launch of wraps, Choco dip McSwirl and hot beverages. The 2009 introduction of chicken nuggets and 2011 introduction of spicy chicken and paneer was a major breakthrough turn around strategies. In 2012 Mc Egg was introduced. Few products were introduced and discontinued and currently the menu consists of Egg & Cheese Muffin, Sausage McMuffin, Sausage & Egg McMuffin, Veg McMuffin, Veg Supreme Muffin, Hot Cakes with Maple Syrup, Hash Brown, Veg Pizza McPuff, Chicken Maharaja Mac, McChicken, Filet-O-Fish, Chicken McGrill, McVeggie, McAloo Tikki, McEgg Burger, McSpicy Paneer Burger, BigSpicy Paneer Wrap, McSpicy Chicken Burger, BigSpicy Chicken Wrap, Salad Wrap, Fries, Veg Pizza McPuff, Flavoured Milk shakes, Chicken nuggets, Smoky egg, aloo and chicken mini wrap, Masala grill veg and non-veg burger, McPaneer Royale and Grilled chicken royale.

Price Sensitivity studies: The Company provides value to its customers by conducting price sensitivity studies one of the reason for its sustainability. Price sensitivity studies are conducted before determining the price. The rate of inflation is also considered. There were situations where few of the products were launched at a higher price and later price was reduced.

Growth Plans: McDonalds is planning to invest 500 crores through one of its franchisee to honour the expansion plan of doubling its presence in south and western parts of India. The company has targeted sales growth rate of 3-5 % and an

operational income growth rate of 6-7%. The company has a stable business model which makes its targets realistic and achievable. The company is striving hard to meet the changing consumer's preferences to invest in creating demand and to maintain focus on execution and operational excellence.

What is unique about McDonald's?

- The Company's focus on consumers with tasty and a highly nutritious food that can be consumed morning to night.
- The Company presents itself as a fine dining family restaurant where smoking and alcohol is barred.
- The Company wanted to be the favorite place and the way to eat for the customers.
- The worldwide operations are aligned around a global strategy called the plan to win which centers around people, price, product, price and promotion
- The concentration is on continuous cost reduction through efficient operations and continuous enhancement of customer's experience.
- Glocalization which is global but local strategy makes the company understand the customers of each country better. It created better operational efficiency by changing according to the country and formulating country specific strategies. The company customized its marketing strategies based on cultural, economic and socio political factors of different nations.
- It is a rare organization which strikes an efficient balance between operational strategies and customer demands.

- The company maintains the same quality standards all over the World despite having locational constraints and customization.

Conclusion

We have described in detail the success story of McDonald's in India. We have presented McDonald's entry into India and coined a new terminology "Glocalization". Further we have discussed the company's pricing strategies along with its efficient supply chain and operating procedures. Through the case analysis we have identified the company's USP, critical success strategies, its innovation, sustainability and growth plans.

- McDonald's has been the pioneer in inculcating westernization in Indian Eating Habit.
- McDonald's has always made the Indian customer believe that the company's products provide value for money through its branded affordability.
- "Glocalization" is the term coined to symbolize the model of McDonald's which has been an important reason for its success across the globe.
- Products like McAloo Tikki introduced exclusively for India showcases the western outfit of Indian Tradition. Its success in India resulted in adaptation in other countries.
- McDonald's operations are based on lean management principles and JIT which saves time and energy to give the best fresh product to the end user.
- McDonald's is a breakthrough in the traditional Indian restaurant industry which has followed global strategies but still in the local arena resulting in its success.

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