

McDonalds Pakistan: Food and Fun Together

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Abstract

McDonalds is a leading fast food chain that revolutionized the food industry in the world. In 1980s, many companies expanded into international operations through franchise mode of business. Though these companies wanted to stick to their original knitting, they had to attune themselves to regional preferences. McDonalds' operations in Pakistan are no different to this theory, but they negated the traditional marketing philosophy of "rule of cumulative attraction" by locating their outlets where their customer segment is in dense concentration.

McDonalds defied the "rule of cumulative attraction" and "affluent segment being the trend-setters" by initially locating their outlets in Gulberg, Lahore and Nazimabad, Karachi instead of "Boating basin" where most restaurants were located. Middle class and working classes in Pakistan mostly live in Gulburge and Nazimabad. Fast-food industry thrives on foot-fall of customers and high volume sales at low prices instead of premium pricing strategies. The very spirit of McDonalds would have been distorted if the general perception amongst the target market had been that "McDonalds is for the rich". In 1998, Boating basin a seaside locality near Clifton, Karachi had turned into a food street and all eating outlets opened within this vicinity being more averse risk project, Pizza Hut launched its outlet in Boating basin, Karachi in 1993.

Though McDonalds is popular, yet there are many challenges before them. In spite of their popularity, the different chains are not able to bring much change in their product range and service conditions. Environmental changes like healthier food preferences, depressive income levels and variety seeking cuisine requirements dictate that innovative and nutritional value added products should replace the traditional products.

Keywords: McDonalds Pakistan, Lakson Group of Company, Mission, Fast food Restaurant, Franchise, Burger market.

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Introduction

McDonalds ranks highest on the apex of fast food industry. For decades, it has remained amongst the top hundred companies of Fortune 500. Their operations, all over the world generated revenues to the tune of \$ 24 billion in the year 2011. Business consultants acknowledge the Company for its excellence on operational practices, strategic insight and consistent practices. The “golden arches” span in more than 120 countries with over 30000 locations. This success is not attributed only to luck but also to exacting priorities, steadfast direction and visionary leadership. Ray Kroc perfected the McDonald brother’s first burger stand in San Bernardino in 1954 and set up a fast-food service legendary chain called McDonalds. He is remembered as visionary who totally revolutionized the cuisine industry to meet the faster-paced lifestyle of 1960s. He fulfilled the customer’s need of desiring quick nourishing meal, clean environmental conditions and friendly service. The instant popularity of this format was attributed to environmental conditions prevalent in United States in 1960s when expanding workforce began opting for “eating out”, increase in single-home families and combining food with fun. Later, Ray Kroc perfected the franchise mode of business in States and expanded internationally (Love, 1987, pp.38-52). In the 1990s, the performance of McDonalds was not at its best. Other healthier formats were catching up and customers desired variety. Another concern was the accusation on fast-food consumption leading to obesity. In these times, the corporate strategy adopted was market development by expanding inter-

nationally. (Shamsie, 2005, pp. 692-698).

Franchising

Franchise is the common mode of international expansion for all industries. Firstly, this forward integration spreads the risk and investment among many stakeholders. It is said that a franchise opens every eight mins in US (William, 2002, pp.100-103). McDonalds has been successful in their international operations. Monitoring the franchisee to maintain similar standards remains a problem but good companies apply extensive rules and regulations, training opportunities and stringent quality control measures (Thompson et al., 1998, p. 313). Every activity is prescribed by the franchisor and systematic monitoring is executed to ensure no let-ups. Some entrepreneurial consultants ascribe this methodology as an imitation where tested procesi are implemented with no room for creativity or entrepreneurial experiment (William, 2002, pp. 100-103).

Autonomy in Operations. McDonalds gives autonomy to the franchisees to design their own respective ambience and décor. While “golden arches” is always present as the logo, yet the interior is diverse across the globe keeping in mind the local architecture and community feelings. At Salen, Sweden, on the slopes of Lindvallen Ski resort the building is different and built in a typical mountain style where skiers can virtually glide to the counter without taking off their skies. On the other hand, in Beijing, China, restaurants is a place to “hang out”. They are part of the community, serving young, old families and couples lingering on while re-

laxing or chatting (Zeithaml et al, 2004, pp. 300-301). In Pakistan, firstly, people consume three meals a day; resultantly more usage opportunity exists. Secondly, family rooms are located on the second floor so that conservative families could find privacy with comfort. Similarly, children play areas are towards the corner of the building so that their usual din does not become point of annoyance for other customers.

This empowerment to franchisees is not only restricted to infrastructure but also in the product innovations. It is interesting to note that many of the new products added to McDonalds’ menu over the decades were developed by franchisees, e.g. “Big Mac” was developed in 1968 and “Flurry” in 1999 (franchisedirect, 2012). Similarly in India a new product called “McEgg” has been introduced since most customers are vegetarian. (McDonalds India, 2011)

Conditions of Franchising. McDonalds evaluate a potential franchisee on his/her good credit history, business experience, managerial skills and financial soundness. McDonalds grant this mode of business in three categories. Traditional restaurants include restaurants in shopping areas and food-courts, which are granted a lease of 20 years. Satellite locations includes retail stores, airports, universities and hospitals are granted lease for shorter durations while STD and STR format is applicable to smaller towns. A service fee of 4% of monthly gross sales is charged from the franchisees. McDonalds do not provide any financial assistance to the franchisee. However, training facility is open to employees to master the specific skill sets

and McDonalds’ operating systems. A Franchise Disclosure Document (FDD) is drawn between the two parties to cover all the related formalities.

Franchises Network. McDonalds has presence in more than 120 countries and their revenues from these countries range upto 20% of total revenues; the growth rate in Middle East/Africa is 6%. (McDonalds annualreports, 2011) In India, McDonalds’ outlets are over 108 and further expansion is underway (Anand, 2007). In 2012, the revenues have touched \$ 6.3 billion (McDonalds India). McDonalds donot have representation in BanglaDesh.

Critical Service Factors

The imprints of success are linked to the strategy a firm creates for itself. In mid 1960s, the founding CEO of McDonald laid the purpose and objectives for the organization; to emerge as the “best quick service restaurant in the world; provide outstanding quality service, cleanliness and value, so that every customer smiles” (Hunger et al., 1996, p.30). This became the vision for the organization where the purpose of the organization goes beyond the narrow financial objectives and strives to win the minds and hearts of customers by providing them elated satisfaction besides it compels the employees to overstretch their service. The vision is translated into a mission statement that is, “to be our customers’ favorite place and way to eat with inspired people who delight each customer with unmatched quality, service, cleanliness and value (QSC&V)”. These critical service factors (CSF) are the core values, which have

served as the beacon of guidance for McDonalds for all times.

McDonalds in Pakistan

McDonalds granted the franchise license to Lakson Group of Companies for operations in Pakistan in 1998. Lakson Group is a conglomerate whose business portfolio includes Tobacco, Insurance and consumer goods. McDonalds' long-term strategy is executed consistently in Pakistan though it did tailor the format to the consumer preferences as per the culture of the country, which is covered in subsequent part of this case study.

Location. McDonalds Pakistan's first dilemma was; should it open the initial outlet in Karachi or Lahore? Karachi is a trendsetter city while Lahore is more of a city associated with cuisine taste. Should the outlet be located in the posh localities of Clifton (Karachi) or Gulberg (Lahore) to act as "influencers" for the rest of the country market? These were double-edged questions confronting the decision-makers.

SWOT. In contrast to manufacturing firms who choose the most economical location from production or convenience of distribution; a service firm will consider a trade-off between accessibility to target market, image impact factor and cost; and could ascribe more preference to any one factor. In 1998, Boating basin a seaside locality near Clifton, Karachi had turned into a food street and all eating outlets opened within the vicinity of this locality. This locality was more risk averse; Pizza Hut launched its outlet in Boating basin in 1993. The affluent residing in Clifton and Defence area, Karachi, are also the "adopt-

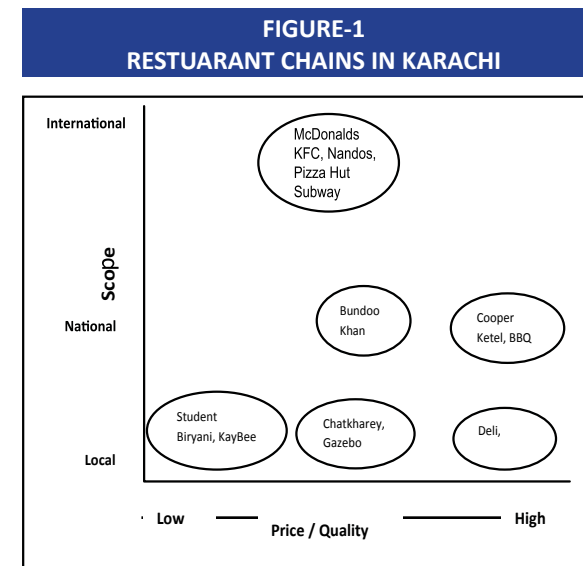
ers" or trendsetters in eating habits therefore opening an outlet in proximity to this locality was a natural choice. Marketers consider social classes and status can play a decisive role in "influencing" the buying behavior patterns of target markets. These early adopters act as a catalyst in molding the opinions of other strata of market (Kotler, et al., 2006, pp. 141-147).

Mission as the Guiding Principle. In this moment of ordeal, the mission statement served as the beacon of guidance for McDonalds Pakistan. McDonalds wanted to project itself as an outlet for the middle-class working families where it had been successful and did not want to distort this image. The first outlet was launched in Lahore in Sept. 1998 and a week later in Karachi in the area of Nazimabad defying previous strategies adopted by other chains. Lahore-outlet was located at Gulberg inhabitants known for their liveliness, vigor, penchant for quality foods. On the other hand, Nazimabad is densely populated part of the city; where colleges, offices and residential colonies are located with majority of middle-class and working class as opposed to Defence or Clifton, which is the abode of affluent part of society. Nazimabad is located in the center of metropolis nearly 30 kilometers from Boating basin. The local populace accepted the openings with gusto and soon it turned out to be a booming business.

Fast Food Industry in Pakistan

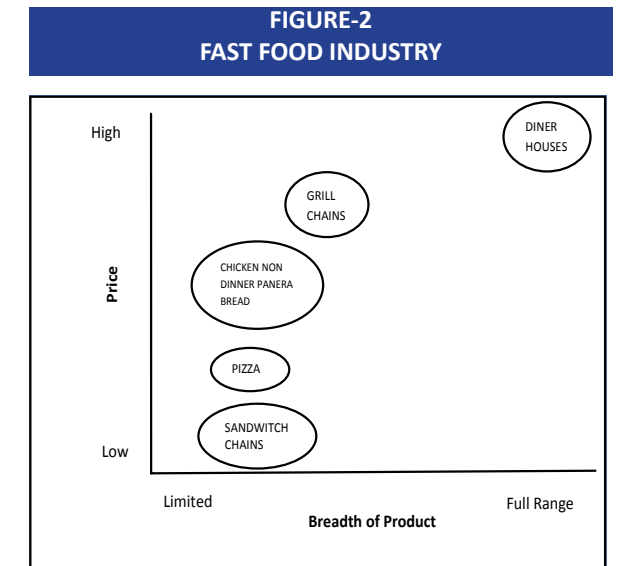
Restaurant Industry. Traditional, eastern and western food segments the restaurant industry in Pakistan. Each category has a large customer backing, however variety-seeking

desire of consumers deter customers from remaining brand loyal. The traditional food range is wide and people who relish condiments eat at such joints. The Chinese food restaurants are mostly popular with families who desire light meals and more formality in ambience. The western food restaurants comprising of fast-food cafes and diners are visited to satisfy desire of change of taste. Price, variety seeking desire and quality differentiates each of these categories (Ahmed s. F., 2010). [Figure-1].



Classification within Fast Food. International chains have been quite successful in the fast food industry. The newer format of western food is perceived as imitation of western cultural tastes (point of fascination), quicker service and moderate price. It gained popularity amongst all segments of society especially the middle-class families. The variety of servings differentiates the fast food industry in seven categories. These are sandwich chains (McDonalds, Hardees, and

Subway), pizza chain (Dominos, Pizza Hut), family restaurant (Café Flo, Copper Kettle), grill chains (BBQ tonite, Arizona Grill), dinner houses (Red Lobster,), chicken chains (KFC, Nandos) and non-dinner concepts (Dunkin Donuts, Starbuck). When mapped on the depth of product line offered and price, all firms have similarities as well as differences. Similarities are narrow product line and speedy service while they differentiate on variety, price and perceived values. McDonalds has a narrow product line offered at moder-



ate price. [Figure-2]
Market Share. The market share of fast food industry in Pakistan is around 13 percent. Today the main three players, KFC, Pizza Hut and McDonalds have varying presence with equal perceived image. KFC has 43 outlets; Pizza Hut has 47 outlets whereas McDonalds has only 23 outlets. However, McDonalds has 43% market share in fast-food industry. McDonalds is quite choosy in selecting their locations. The main two me-

tropolises, Karachi and Lahore have eight outlets each, while in the remaining five cities there is one outlet each. Approximately 50% market share of McDonald reveals, that in spite of reduced presence as compared to its competitors the Chain commands the lion share reflecting more customer acceptability (Ahmed s. F., McDonalds, 2010). McDonalds has been picking their outlets with adroitness always maintaining the purpose, “food with Fun”; launching outlets at Jinnah International Airport, Karachi or Drive-in outlet at Clifton beach, Karachi attracts fun seekers automatically. The latest launch at Atrium Mall, Saddar Karachi helped them become a beneficiary to the public rush at this recreational spot.

Business Strategy. Since the product line cannot be expanded, McDonalds imposes a strategic limitation on itself therefore; has formulated a strong low-cost leadership as its business strategy. In the earlier stage of its operation, they had perfected high level of process engineering skills, quality control, cleanliness and friendly customer service that became the core values of the organization. However, low-cost operation is also dependent upon the intensity of footfalls within the premises; another imperative for locating the restaurant in densely populated localities. The prices have to be kept low, service faster and ambience simple but attractive to pull the customers.

Food and Fun. The company pursued a policy of differentiation and distanced itself from its competitors, KFC, which stood for chicken, and Pizza Hut, which stands for richness of food. Instead, McDonalds projected itself as a place for variety and fun-seekers. McDonalds has been successful to emerge,

as a family restaurant since in Pakistan eating out, is not a luxury, but a recreation. Play section is invariably a part of each outlet where children enjoy food with fun. This is a point of differentiation as compared to its competitor like Pizza Hut or KFC. Adults desire change more often; while, children remain more loyal and in Pakistan play an important role in influencing parents to choose McDonalds outlets. The local management exploits this psychographic characteristic well. Giveaways usually accompany orders that have a special attraction for children. For the first time, McDonalds collaborated with children movie distributors and sponsored movies, Shrek and Madagascar 2. According to statistics gathered McDonalds has a 95 percent success rate for their product and promotional launches (www.McDonalds.com.pk, 2012). The fries packages and big-Macs are designed attractively to attract children. Lately the company entered into collaboration with a music band, “Kal” as the brand ambassador to attract the teenagers towards their products. McDonalds has a strong market research department to scan the environmental conditions to bring changes in their products as per the needs of the changing customer profile. (McDonalds restaurants, 2011)

Pricing Strategies. Although Taco Bell came up with the concept of “Value pricing” in 1998 meaning, “giving more for less”, McDonalds adopted it more readily (Zeithaml et al., 2004, p.498). Price war as found in the beverage market equally applies to the burger market. In spite of solid reputation, the Company does not practice prestige pricing. Premium pricing cannot be charged in Pakistan due low disposable income of target

market. It rather relies on volume of orders to give true value with right prices for products. Student discount and improving usage rate amongst non-users is its consistent policy. McDonalds restricts itself to chicken and beef offerings but has now also included sea related items. Customers’ preference for healthier food has made them respond by adding salads and other lighter options to their menu.

Functional Strategies

Marketing Problems. In little over a decade, the operations in Pakistan have not been all smooth sailing. The first threat faced by the company was to convince the public that “halal” meat or chicken is used for preparation of products. Soon after the launch, in 2005, the bird flu had to be combated followed by, “mad cow” fear. These epidemics effected sales but did not deter the company to lose heart. Rising raw material cost is difficult to cope up without increasing the prices but had to be kept compatible with the disposable incomes of the average customers. There is intense competition from newer formatted chains like Subway, coffee shops and grilled outlets, which are perceived healthier. McDonalds also ventures into alliances and collaboration with local enterprises to gain impetus to co-branding. Pakistan International Airlines (PIA), Ufone and Coca Cola were some leading organizations who have varying degree of partnerships with the company.

HR Problems. Finding the right human resource compatible with the values of McDonald was another issue that required adroit handling. The workforce in fast food the world over is composed of college students of both genders. In Pakistan, this was not so;

but in a short span of time this perception was corrected. Today most staff comprises of young well-groomed boys and girls who perfectly emulate a typical McDonald’s employee. In 1990s, waitresses were unheard of in a local restaurant but the McDonald culture prevailed and educated girls ventured into this profession without inhibitions. McDonalds requires employees to be always smiling while interacting with customers. Such a requirement strikes many employees as artificial. The Company has learnt to encourage managers to probe employees and assign troubled workers to be in kitchen rather than to the order counters (Murphy, 1994, pp. A1, A18). Today McDonalds Pakistan has 1200 employees performing different functions. With stringent measures on Q.S.C&V and training, McDonalds Pakistan meets the corporate standards and extends service to customers with fewer employees as compared to its competitors.

Training. Most outlets serve time is 90 seconds after receiving orders and 30 mins for home delivery anywhere in Karachi. This is due to result-oriented training. It may have been difficult to emulate the same “ketch up in the veins of employees”, due to lower literacy rate and different set of attitudes. The training at McDonalds focuses on three areas, cognitive, knowledge learning and behavior modeling. Two creative methodologies are used for training; Assertive training (AT) where employees inculcate this important trait in life style and secondly Andragogy learning method based on a verified system of adult learning. The most important aspect of training is displaying friendly and a caring attitude towards customers (Ahmed et al., 2010).

Corporate Social Responsibility. The initial philosophy of social corporate responsibility, “if you are going to take money out of a community, give something back” coined by Ray Kroc is practiced in McDonalds Pakistan (Reingold, 1992, p.67). The organization provides material support and encouragement to the people who needs it most. Usually they support educational, sporting and charity programs. The firm maintains Green Park since 2006, in Islamabad in line with the “Green Wave” trend supported by the McDonalds Environmental Defense Fund (www.McDonalds.com.pk, 2012). The company also supports the Thalassaemia Society in Pakistan. Considering the public swing towards healthier food, McDonalds regularly publishes nutrition content values of their products on their web site to educate their customers on how to choose their menu intelligently. The company recommends a 2000-calorie diet to remain healthy. (www.McDonalds.com.pk, 2012). There has been a paradigm shift to “Better not bigger” strategy in view of health conscious customers. (Meirselles, 2009). The Company imports most food related raw material, as no Pakistani company is able to meet their stringent standards. The Company won three international awards in 2009 for food quality, safety, people hygienic commitment and restaurant cleanliness (Ahmed s. F., McDonalds, 2010). McDonalds has invested Rs. 30 billion in the country and pays Rs. 10 billion towards taxes as compared to Rs. 4 billion by KFC in 2010. (Ahmed S. F., 2010)

Conclusion

“Good to Great” companies do not treat the mission as an exercise in rhetoric but as a

declaration of attitude and outlook. The nine components of mission necessarily may not be included in the mission statement as in the case of McDonald, but is specific as far as the target market is concerned. Similarly, profit maximization is not the objective of the company as is evident from the number of outlets as compared to its competitors but overkills on the quality decision. Ray Kroc once commented, “If I had a brick for every time I have repeated the phrase Q.S.C & V, I think I would probably be able to bridge the Atlantic Ocean with them” (Peters et al, 1987, p.285). Low profit margin is a characteristic of fast food industry and therefore McDonalds competes on service standards, lively ambience and cleanliness.

The vision is transformed into firm’s mission statement. It is binding on the company to devise their operational strategy to remain aligned to the mission statement always and every-time. A firm should not digress from its mission statement irrespective of odds reflected by regional trends and customer preferences. Marketing undergoes changes according to the needs of customers however, the “Good to Great” companies changes the incorrect perceptions of the customers and brings them closer to reality.

A company also needs to align itself with the changing realities. What was once accepted, as a newer concept may no longer be relevant? Perpetuity in lifeline is assured by change in strategy. Recent trends towards healthier food formats, competition from eastern cuisine and building in local preferences are some of the challenges that McDonalds will face tomorrow.

ISSUES

1. What beliefs and values emerge from the vision and mission statements of McDonald? How has McDonalds Pakistan applied them?
2. Customer’s preferences are shifting to healthier food; do you agree that it dictates that McDonalds carry out a paradigm shift in its strategy?
3. What changes in product range and ambience is necessary in McDonalds’ strategy to cater for local tastes, preferences and cultural habits for the franchisee outlets?
4. Choose a few of McDonalds’ outlets for service survey. Frame a survey questionnaire, conduct a customers’ survey, and rate each of the outlets on the degree of service provided by them. Analyze your findings.

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