

# BUSINESS LEVEL STRATEGY & DIVERSIFICATION ANALYSIS AT MCDONALD'S

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**Submission date:** 07-Jun-2023 05:18AM (UTC-0400)

**Submission ID:** 2110924277

**File name:** 1-4\_IJML\_Jessica.docx (196.78K)

**Word count:** 1485

**Character count:** 8575

## BUSINESS LEVEL STRATEGY & DIVERSIFICATION ANALYSIS at MCDONALD'S

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### Article History

Received : May  
Revised : June  
Accepted : June  
Published : June

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**No. Contact:**

**Cite This Article:**

**DOI:**

**Abstract:** In the business world, there is a hierarchy of strategies that empower organizations to achieve organizational goals more effectively and efficiently, namely Business Level Strategy and Corporate Level Strategy. The purpose of this study is to discuss how McDonalds implements these two strategies to achieve organizational goals and gain competitive advantage. In this study, a qualitative approach was used. By implementing a Business Level Strategy by choosing the Integrated Cost Leadership Differentiation method and in the Corporate Level Strategy strategy by choosing a diversification method, the McDonalds company can ultimately increase revenue by maximizing the company's resources.

**Keywords:** McDonalds, Business Level Strategy, Corporate Level Strategy, Cost Leadership Differentiation, Diversification

### INTRODUCTION

Strategy at the business level or Business Level Strategy are the steps managers usually take to activate the company's ability to create an advantage over competing companies. The basic formula for this business-level strategy is what the customer wants or needs, the target market, and the extraordinary ability to respond to customer needs.

McDonald's, founded in 1955 in California, USA, is the largest fast food restaurant in the world. In its strategic approach, McDonald's enables franchisees and suppliers to align their visions and work together, not just for McDonald's. Within his franchise model, McDonald's founder Ray Kroc promoted the entrepreneurial spirit of franchising and gave franchisees the flexibility to develop innovative menu items such as Big Macs, Fillet Fish, and Egg McMuffins. The resulting franchise innovation gives franchisees the freedom to innovate, but adheres to McDonald's core values of quality, service, cleanliness and value for money.

McDonald's is famous for its hamburgers in more than 100 countries and was first present in Indonesia in 1991. Always guaranteeing the quality of its products, McDonald's provides satisfying service, maintains food hygiene and safety, and provides other added values. As a leading brand, McDonald's continues to achieve profitable developments and improve its operations through innovation and technology.

A diversification strategy can also be implemented to minimize business risk. A company that depends on one type of product or item will have a greater risk in its presentation and may experience greater losses in the market. In implementing a diversification strategy, the possibility of experiencing losses can be reduced. Offering a more diverse product, service or service by targeting a wider and different market segment can increase greater opportunities for profit (profit).

Therefore the author uses McD to analyze here McD is a fast food restaurant that has many branches in Indonesia and abroad. It was from here that the authors conducted a study entitled BUSINESS LEVEL STRATEGY & DIVERSIFICATION ANALYSIS AT MCDONALD'S to analyze the business level strategy and diversification carried out by the company in order to minimize risks to the business and increase competitive advantage within the company.

## RESEARCH METHOD

In this study, a qualitative approach was used to obtain in-depth and detailed data about the Business Level Strategy and Corporate Level Strategy carried out by McDonald's and also used a research design by means of a case study.

Researchers analyzed the data by means of qualitative descriptive analysis and in the data collection technique used the Documentation method to obtain data from documents related to Business Level Strategy and Corporate Level Strategy.

1. The data collection procedure is carried out in the following way:
2. Identify sources of documents or references related to Business Level Strategy and Corporate Level Strategy at McDonald's.
3. Analyze the results of the data that has been obtained.
4. By using this methodology, it is hoped that research on Business Level Strategy and Corporate Level Strategy at McDonald's can provide accurate and reliable results.

## RESULT AND DISCUSSION

### *Integrated of Cost Leadership Differentiation*

McDonald's as a global company with a well-known brand name offers its products at relatively more affordable prices with some differences. Globally, franchising and monitoring it against applicable standards keeps prices as low as possible. This encourages McDonald's to minimize costs so that it can offer products at a lower price than its competitors.

### *Broad Differentiation or Differentiation*

In addition, McDonald's uses product differentiation as a supporting strategy. This includes developing its business and products to differentiate it from competitors. For example, McDonald's implemented a differentiation strategy through its McCafé products, as McDonald's main product is actually hamburgers, but McDonald's innovated through an overall product differentiation strategy to win the fast food market.

### *Implementasi Corporate Level Strategy-Diversifikasi pada McD*

McDonald's effectively identifies the target market that the company will target, in contrast to strategies that target the market randomly or do not have a clear focus. Since its inception, McDonald's has chosen to diversify into fast food that is acceptable to a wide range of consumers and ages, even though its business is spread across the country.

McDonald's applies a diversification strategy of Moderate to High Levels of Diversification at the Related Constrained stage, as the main business revenue is less than 70% and there are linkages between products, technology, and distribution.

So far, McD is known by the public as a company that sells fast food, but in fact the business form of McD is International Franchising so that its revenue is not only from fast food products but also from the franchise business.

According to click franchising data, McDonald's financial statements in 2020 stated that the total asset value of property & real estate owned by McD was worth 41M USD. This value made McDonald's in that year declared as the 7th company with the largest real estate and property assets in the world.

Unlike the franchise business model that usually runs, the business run by McDonald's requires its franchisees to lease land and buildings.

In millions	2020	2019	2018
Rents	\$ 6,844.7	\$ 7,500.2	\$ 7,082.2
Royalties	3,831.5	4,107.1	3,886.3
Initial fees	49.9	48.4	44.0
Revenues from franchised restaurants	\$ 10,726.1	\$ 11,655.7	\$ 11,012.5

Figure 1 : McDonald's Financial Report 2020

In the data described in this 2020 Financial Report, it can be concluded that McD's largest revenue comes from property leases with a capacity equivalent to 64-70% of its revenue.

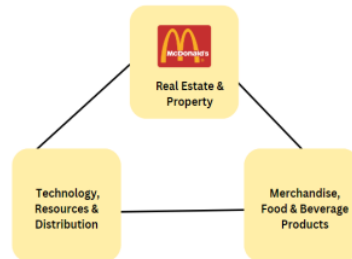
From the Property and Real Estate business run by McDonald's, it can generate from each franchise in the form of :

1. Franchise fee of USD 45,000
2. Building rental fee of USD 228,000 or equivalent to 28% of sales target
3. 4% sales commission or royalty earned per month

Promotion and marketing costs (minimum 4%) McDonald's in this business acts as the owner of the land and buildings leased by the franchise. The income earned by McDonald's is also due to the value of real estate and property assets always increasing every year.

In this case, McD uses a Moderate to High Levels of Diversification strategy at the Related Constrained stage because the Real Estate & Business and Food & Beverage businesses are related because they use company resources and carry out activities together.

In simple terms, the relatedness of McD's business diversification can be explained in the following chart:



## CONCLUSION

Strategy leads to a plan that details the actions required to achieve the overall goal. Business level strategy focuses on "the organization as a business and its relationship with customers and other businesses/comptors". Corporate level strategy deals with the entire organization. In this paper, the writing group discusses business level strategy and corporate level strategy using McDonald's as a case example. McDonald's is a company that is familiar to the public, which operates in the fast food industry and is traded internationally. McDonald's classifies its consumers based on parameters such as age, tastes and preferences, and cultural affiliation among other demographic characteristics. It then begins to define the needs of its target market segments. This aspect shows that the business level strategy for McDonald's is to 'make and offer what customers want and how they want it'. Applying this principle has seen the organization build enormous brand loyalty in all areas of its operations. Corporate level strategy aims to examine what the organization does combined with the decisions of the top. This aspect includes determining whether it is feasible for the business to diversify into new territories, develop partnerships with other rival companies, or abandon certain product lines to focus on the most profitable ones. By focusing solely on the fast food industry, McDonald's has established a very strong brand image and loyalty around the world. The only challenge is how to maintain this feat in the long run.

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