A STUDY OF THE CHALLENGES FACED BY MCDONALD’S WHILE ENTERING THE MARKET OF INDIA

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ABSTRACT

McDonald's was started in India around 23 years ago. Currently it has more than 400 outlets and is among the most loved fast food chains by the Indians. This research paper focuses on the problems faced by McDonald’s while entering into the Indian market. The first phase of the project involves the challenges faced by McDonald’s which includes the cultural, political and environment factors that caused hindrance to McDonalds while capturing the Indian market. The second part talks about the comparison of McDonalds with its major competitor KFC while trying to gain popularity in the Indian souk. The secondary data for this research was collected from various research papers, articles and different websites. The final phase involves the future scope of McDonald’s and how they plan to overcome all the challenges and rule the Indian Market. The main competitors are KFC and Burger King, but McDonalds is still leads the market in terms of quality, price and customer preference. The paper also contains graphs and analysis supporting the best fast food chain, which is liked people and preferred by most of the people.

KEYWORDS

McDonaldization, fast food chains, cultural restrictions, barriers, KFC, comparison
2. INTRODUCTION

McDonald’s is an American fast food company, founded in 1940 as a restaurant operated by Richard and Maurice McDonald’s, in San Bernardino, California, United States. They rechristened their business as a hamburger stand. McDonald's had its original headquarters in Oak Brook, Illinois, but moved its global headquarters to Chicago in early 2018. First restaurant of McDonald's in India opened on October 13, 1996 in New Delhi. It was also the first McDonald’s restaurant not to serve any beef and pork products. McDonald's restaurants are found in 130 countries and territories around the world and serve 68 million customers each day. The McDonald's Corporation revenues come from the rent, royalties, and fees paid by the franchisees, as well as sales in company-operated restaurants. It has close to 400 restaurants in India. McDonald’s has dramatically reshaped India’s fast-food culture, especially among the middle and affluent classes, over the years.

2.1 ABOUT THE COMPANY

Serving as the leading global food service retailer with more than 32,000 local restaurants serving more than 68 million people in around 130 countries each day with a revenue of about $23 Billion, McDonald’s has won many awards due to its excellence service in the fast food sector and has set a benchmark for the other fast food chains as well. 70% of the restaurants worldwide are owned and operated by independent local businessmen and businesswomen some of which are even operated 24 hours. McDonald's India has earned tremendous trust and respect of customers in India since the opening of first McDonald’s.

McDonald’s regular scrumptious menu includes wide range of products like McAlloo Tikki, Filet-O-Fish, Spicy Range, Chicken McGrill, McVeggie, Veg Pizza McPuff, Chicken McNuggets, Fries, Wraps, an assortment of Sundaes, Soft Serve and refreshing beverages such as Ice Tea & Cold Coffee with outstanding service in a vibrant and lively ambience, for which McDonald's is known worldwide.

McDonald's philosophy of QSCV (Quality, Service, Cleanliness and Value) is the guiding force behind its service to the customers in India. Following its philosophy of being sensitive 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 right from the food processing plants to the point of serving the customers.

In India, the brand is managed by two business entities Connaught Plaza Restaurants Private Limited, led by Mr. Vikram Bakshi, JV Partner and Managing Director, North & East India and Hardcastle Restaurants Private Limited, led by Ms. Smita Jatia, Managing Director, South & West India.

McDonald’s 7 core functions of marketing are :-

- **Pricing**: by keeping the prices low McDonalds makes its products available for all class of customers.
- **Product and Service management**: by making separate menu for vegetarians and non-vegetarians, kids and adults, spice lovers etc it manages its product line and they are focused on keeping the theme of fun and happiness in all of their outlets.
- **Distribution**: they have a wide network of McDonald’s outlets and franchisees all around the country even at religious sites like vaishno devi etc. they also have drive thru at their outlets which makes food available at ease and at a faster speed.
- **Financing**: McDonald’s find all the revenue they make for everything they own and subtract all the expenses they incur and then they have their product.
Marketing Information management: McDonald’s keep on updating their menu and marketing channels by looking at the new trends and by going through the sales.

Selling: McDonald’s have around 400 outlets across the country which is further divided into north east and south west region.

Promotion: they promote themselves by sponsoring themselves in events, TV commercials, banners, posters, SMS updates of offers, radio advertisements, pamphlets, discount cards for breakfast and a few veg and non-veg items etc.

McDonald’s has become emblematic of globalization, sometimes referred to as the "McDonaldization" of society. McDonaldization is a reconceptualization of rationalization and scientific management. The process of McDonaldization can be summarized as the way in which "the principles of the fast-food restaurant are coming to dominate more and more sectors of American society as well as of the rest of the world."

A few general problems faced by McDonalds while they tried entering the markets of India were:

- There is a large eating out market in India with an increasing propensity to spend by customers.
- Indians wanted to taste American fast food, but it could not be a substitute for Indian food. Hence adapting McDonald’s menu to Indian taste was crucial if they were to succeed in India.
- Half of the Indian population was vegetarian for whom a separate menu was to be created new line of burgers was introduced by McDonalds.

2.2 PROBLEM STATEMENT

Major problem for McDonald’s to enter the Indian market was Indian diversity, religious and cultural constraints, environmental and animal activists opposed the entry of fast food chains, health concerns of the people, perception that McDonalds was for rich people, poor transportation and storage infrastructure and lower quality agricultural products. Presence of a fierce competitive fast food market with huge players like KFC, Pizza Hut etc. The most important problem was the ban on beef in India and the majority population being vegetarian. One of the recent problems that McDonald’s faced is closing of its 169 outlets in the North and East India because of a protracted legal fight between the fast food chain and its estranged partner Vikram Bakshi.

3. SIGNIFICANCE

McDonald’s operates with local partners, procures raw material from local traders, constructs its restaurants using local architects, contractors, labor, and personnel nearly 98% of its inputs are sourced from local markets. This has helped in providing employment to the people of India. It sources food products from local companies e.g mutton patties from Al-Kabeer, Hyderabad’ Andhra Pradesh; Fresh lettuce from Pune, Ooty, Maharashtra, Dehradun; cheese from Dynamic Dairies; Baramati, Maharashtra; sesame seeds buns and sauces from Cremica Industry Phillaur, Punjab and pickles from Hyderabad and Andhra Pradesh.

McDonald’s is a multiple times award winner for its quality standards, excellent service, value and strictly adhering to Indian Government regulation on food, health and hygiene. It has brought about variation to its menu suiting to the taste of the Indian Consumers also the marketing and penetration techniques it has used has set itself as a role model for the other fast food industries like TacoBell, Subway, Starbucks etc. this revolution is also called McDonalization. McDonalds respects the cultures by keeping Indian names for their burgers like Mc Aloo Tikki burger, Maharaja Mc, Mc Spicy Paneer burger, Masala Tea, and providing burgets and other products with a fusion and India was the first country in which McDonald’s have separate oils, utensils and equipment for veg and non-veg items and not to add pork and beef in its products. It is also successful to set its price so that it is affordable for a large segment of Indian Customer.

McDonalds is associated with various social works like having donation boxes for collecting money for social cause like I care for eye care, Help Someone See, creating awareness for eyes and education. They even focus on keeping the environment clean by having dustbins in and around their restaurants they also encourage their employees to go around the locality at the end of the day to clean the leftovers so that the waste is properly disposed off and the surroundings are clean.
4. OBJECTIVE OF THE STUDY

- The first main objective of this study is the challenges or the controversies faced by McDonalds while entering the markets of India.
- The second objective is the comparison of McDonalds with its competitor KFC in terms of obstacles faced while capturing the Indian Market.

5. RESEARCH METHODOLOGY

The main purpose of this study is the challenges faced by McDonalds while entering the Indian Market. The second objective is the comparison with KFC and which fast food chain proved to be better and accepted well by the people of India.

The method of data collection is secondary. The sources include research papers, articles, company website and the internet.

The analysis has been obtained from previous surveys conducted by different individuals or organisations. All the references have been attached at the end of the document.

6. ANALYSIS

McDonald’s entered the Indian market in 1996 as a joint venture (JV) between Oak Brook III. and 2 local partners – Hardcastle Restaurants Private Ltd. in western India, and Connaught Plaza Restaurants Private Ltd. in northern India.

To enter a market where consuming beef is “off limits” was very challenging and ambitious. McDonald’s objective was to be inspired by the culture of India and to deliver the greatest of food experiences to the customers in India bringing in the spicelife. They were aiming for to change the local perception of the new product being “American” and remove the fear of unknown, where family “dining in” was a custom for centuries. The management wanted to advertise McDonald’s as a stimulator and advocate of family and culture values. The diversity in language and communication is one of the greatest components of the culture. Until 2000, McDonalds advertised their brand mainly by putting the main focus on the outlet design and tailor made food menu for the needs and desires of the diverse Indian population. McDonald’s entry into India was met with stiff opposition. Members of the Hindu organization, the Bajrang Dal, the militant arm of one of the dominant fundamentalist political parties in India, the Bharatiya Janata Part (BJP) openly protested against the company by attacking it’s branches across India on May 4th, 2001. The members of the Bajrang Dal demolished the restaurant in Thane, a northeastern Bombay suburb. In southern Bombay, a McDonald’s store was besieged by protestors from the leading Bharatiya Janata Party, who shouted slogans and stained the restaurant’s mascot with cow dung. SHIV SENA – another Hindu alliance also threatened to protest outside the McDonald’s corporate office after reports of a lawsuit being filed against McDonald’s in Seattle. The biggest problem McDonald faced was during the launch of its product in India was the public image it was carrying as an International food chain and not matching Indian standards. There were concerns raised about how the burgers are made in McDonalds.

Offering the cheapest burger in the world was not easy. In India, McDonald’s offered a menu that did not had any beef or pork items as well as special product formulations for accommodating Indian culture and palate. Furthermore, all the vegetarian products, even the mayonnaise in vegetable burgers, were egg-less and 100% vegetarian. Additions to the menu have been a regular feature of McDonald’s in India. The company in India conducted regular qualitative as well as quantitative studies, which tracked the target consumer lifestyle in India, a practice that had followed internationally as well.
It was under these circumstances that McDonald’s India went about creating the cold chain infrastructure for its restaurants in the country. As McDonald’s always considers the quality of all its products to be of primary importance, it sets high standards for its suppliers that are amongst the biggest in the food industry. World over, McDonald’s always believed in development of close relationships with suppliers and this is precisely what it has done in India.

As India being a very ancient country and one of the lands of the ancient river valley civilizations, McDonald’s had to consider the cultural, economic and sociopolitical factors in India. The Indian population is very diverse and complex as nation is split between different communities, religions (e.g. Hinduism, Buddhism, Sikhism, Islam, Jainism and Christianity), beliefs and value systems. All these factors play a significant role in nations’ preference for food and dining in general.

80% of the entire population of India practice Hindu which forbids non-vegetarian food (Indian Mirror, no date). Because of this, McDonald’s initially only offered a vegetarian menu. Later they understood that this wasn’t the correct approach. To honor the cultural differences between religions, the company categorized the cooking tools as well as employees in vegetarian and non-vegetarian category. The cultural factor had to be taken into consideration in such market, as any omission can destroy the reputation globally which may limit the chances of business expansion (Rappa, A., 2007). The change in menu came also because of competitors like KFC, whom entered the market first with non-vegetarian products.

McDonald’s formulated a suitable pricing strategy that can facilitate the high volume of consumers, targeting mainly the lower and middle class. The majority of the Indian population falls into this category.

The market share in India is totally different from that of the USA. Here the family dining concept works. This led to concept of breakfast combos. The restaurant was also projected this as a fine dining restaurant. This became the USP of McDonald’s in India. The television commercials of ‘Toh Aaj McDonald’s Ho Jaye’ and ‘McDonald’s Mein Hai Kuch Baat’ and the happy price menu is what attracts Indian people to McDonald’s. The new advertising of Prices of the Yesteryears, attracted the teenager crowd too.

In order to capitalize on the highly price sensitive economy, and the Indian mentality of liking anything that is foreign, McDonald’s strategy was market penetration and the three circles strategy. This led to localization and branding of the company. The entry of almost all the international brands into India happened at the same time, while others closed down due to various strategies. McDonald’s survived only due to keen understanding of the Indian economy.

The massive and aggressive expansion strategies that McDonald’s took up in India was with the sole objective of establishing its presence indelibly in the sub-continent and to prove to the world that if anything can sell in India it can sell anywhere. Today McDonald’s has become a household name and finds its kiosks in almost many schools colleges and corporate. It can be said that there is no food court without a McDonald’s and almost every Indian has tasted McDonald’s fast food. This is indeed a great breakthrough for a very orthodox community that has very rigid and fixed eating habits and traditionally very Indian.

McDonald’s had to make it clear to the authorities that their products in India neither contain beef nor pork in it. They had to suit their burgers to Indian taste and Indian market which was a hyper price sensitive market. The introduction of breakfast combos and budget meals made market penetration possible. “Aloo Tikki Burger” was McDonald’s priced product in India. Their quick turnaround times made new inroads into the fast food industry.

As providing value to the customer is the key, price sensitivity studies are conducted before determining the pricing. The rate of inflation is also reviewed. McDonald’s definition of value was far broader than of most of the restaurants in its competition.
KFC IN INDIA

Foreign fast food companies were allowed to enter India during the early 1990s, thanks to the economic liberalization policy of the Government of India (GoI). One of the first fast food multinationals to set foot in India was Kentucky Fried Chicken (KFC), owned by PepsiCo. KFC received permission to open 30 new outlets across the country. It chose Bangalore as its launch pad because the city had a substantial upper middle class population, with a trend of family seating out. Also, it was considered India’s fast growing metropolis in the 1990. The Bangalore outlet was opened in June 1995. Apart from Bangalore, PepsiCo planned to open 60 KFC and Pizza Hut outlets in the country over the next seven years. However, KFC became embroiled in various controversies even before it started full-fledged business in India.

KFC entered India in 1995 and has been in midst of controversies since then. The regulatory authorities found that KFC’s chickens did not adhere to the Prevention of Food Adulteration Act, 1954. Chickens contained nearly three times more monosodium glutamate (popularly known as MSG, a flavor enhancing ingredient) as allowed by the Act. The reason why KFC did not gain popularity is because of anti-KFC movements that accused KFC of using illegally high amounts of monosodium glutamate, which are harmful to health. Also, the anti-KFC movements claimed that KFC sold food that was cooked and fried in pork fat. Given all these accusations against KFC, the fast food restaurant did not reap sufficient revenue to continue its operations in India. As a result, KFC had to abandon the Indian market. Since the late 1990s, KFC faced severe protests by People for Ethical Treatment of Animals (PETA), an animal rights protection organization. PETA accused KFC of cruelty towards chickens and released a videotape showing the ill-treatment of birds in KFC’s poultry farms. However, undeterred by the protests by PETA and other animal rights organizations, KFC planned a massive expansion program in India.

Once the Indian market cooled down, KFC returned to the country in 1999 and set up an outlet in Bangalore. Until 2004, KFC only operated one outlet in India. As the sole outlet started making money, KFC expanded its operations throughout India and today, KFC outlets can be found in a number of cities.

Comparing McDonalds with KFC, It is clear that KFC is in a better position. McDonalds did face a lot of challenges, but they overcame those soon. Whereas KFC faced a lot of legal issues due to the doubts in meat and its quality. Many proposed that it was made from beef;

Some documentaries showed it was made of hen and vulture hybrid which is unsafe for human consumption. Moreover, McDonalds is famous for burgers and was well accepted by Indian families. KFC since the beginning had the image of selling fried chicken only as the name suggest. Many didn’t know it had vegetarian items as well and others refused to have vegetarian items from a chicken-based restaurant.

Below is the rand value of McDonalds and KFC in 2018:

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<table>
<thead>
<tr>
<th>Restaurant</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>McDonald's</td>
<td>126,044</td>
</tr>
<tr>
<td>Starbucks</td>
<td>44,503</td>
</tr>
<tr>
<td>Subway</td>
<td>18,766</td>
</tr>
<tr>
<td>KFC</td>
<td>15,131</td>
</tr>
</tbody>
</table>
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In terms of number of companies captured, McDonalds his way more than KFC. Where KFC is spread over 90 countries, McDonalds has expanded well in 120 countries. This also concludes that the numbers of McDonald’s outlets are more than KFC. McDonalds has 31,000 outlets while KFC has 11,000.

Below chart represents the market share of all the fast food chains in the world clearly stating McDonalds is the King.
According to various research studies, the burgers of McDonald’s are healthier than that of KFC. Considering only the number of calories, burgers at McDonald’s are healthier than ones at KFC but it is not the case with the French fries. KFC serves healthier fries when compared to a small serving of fries at McDonald’s. The USP of KFC is the Hot ‘N’ Crispy Chicken, which has only 246 calories which is a healthier option over their popcorn chicken which has 273 calories. McDonald’s serves chicken nuggets which has only 194 calories.

McDonald’s is the clear winner as far as innovation is concerned. They have varieties ranging from twister fries to nuggets to naan and ice creams. Whereas KFC always revolves around chicken only and considering the majority population in India to be vegetarian, they haven’t managed to achieve as much profits as expected.

McDonald’s, while having significantly more customers, is the most efficient in clearing queues, followed by BK and KFC. However, no queue doesn’t mean the waiting time is shorter, it simply means McDonald’s is constantly able to reduce the time spent in queue by installing self-order kiosks at their outlets, and directing their customers away from the cashier once payment has been made through what I like to call, the Gong Cha way: they give you the receipt and told you to wait for your queue number to be called.

7. SOLUTION By McDonald’s

McDonalds found the solution to most of its problems; they went Local. They promised that there would be no beef or pork on the menu. Nearly half of Indians are vegetarian so choosing a vegetarian to run their outlets here makes sense. Across the world the Big Mac beefburger is the company’s signature product. Amit and his partners had to come up with their own signature product for India, so the Chicken Maharajah Mac was born.

They introduced a 20 rupees (20p) burger called Aloo Tikki Burger, a burger with a cutlet made of mashed potatoes, peas and flavored with Indian spices. Something you would find on Indian streets, it was essentially the McDonald’s version of street food. The price and the taste together, the value we introduced, was a hit. It revolutionized the industry in India, Localized menu, delivered with precision quality at a price that works.

One other trick they have used very effectively was the entry level ice cream which fuels the ability for consumers who might not ordinarily be able to afford to become a customer.
Another very important thing they did was that all the machinery, infrastructure, and other storage related equipment used to prepare the products were being produced locally to maintain the hygiene standards and retain the trust of the customers as far as the quality was concerned.

8. CONCLUSION

Overall McDonalds has come a long way. From facing constraints including beef ban, lack of poor infrastructure and storage, vegetarian population, political issues, to becoming the most preferred fast food brand, it surely has won the hearts of Indians. It is widely accepted because of its affordable price, quality standards and adhering to the cultural aspects of the nation. It has done everything to establish itself in the Indian market. Now, it is one of the most loved fast food places for families, employees, college students and even old generation. It has successfully targeted all the age groups.

Comparing it to KFC, we would obviously conclude that McDonalds is better in almost every aspect. Be it price, variety and quality standard, it is preferred more than KFC by the people of India. The biggest mistake that KFC makes for the Indian market is that it always revolves around chicken products where the majority population in India is vegetarian.

The recent problem faced by them is the shift of fast food to vegan food that is encouraging people to avoid eating fried food and animal products. As people are becoming more health conscious, these fast food chains are facing problems. McDonalds is however planning to come up with PETA which is a healthier version for all the diet conscious people.

McDonalds has already won the trust of customers, all it has to do is keep updating itself according to the recent trends and changes to adapt it to the changing markets and keep on gaining profits.

9. FUTURE SCOPE

- McDonald’s strategies to increase footfalls in their restaurants by adding new products, increase seating, add birthday party areas, home deliver the products, and penetrate across India. McDonalds has launched their new breakfast menu, McSpicy and McEgg among new products and also extended the restaurant timings from morning to night than the earlier noon to night.
- Besides the Metros and the Class I towns, McDonald’s is expanding in smaller cities as well. McDonald’s plans to open more vegetarian only restaurants near the Vaishno Devi shrine near Jammu and the Golden Temple in Amritsar. It already has restaurants in cities close to these shrines, so the supply chain is in place for the region. The indigenously developed popular McAloo Tikki burger accounts for 25% of the company’s total sales and is also gaining popularity in other countries.
- Future plans are to target drive-throughs by tying up with petrol pumps on highways, where the current 40 outlets are to be expanded to 100. McDonald’s currently operates over 250 restaurants across 50 plus cities in India, attracting close to 400,000 consumers daily. Among the JV partners Hardcastle operates 130 restaurants and Connaught Plaza operates 120 restaurants, which would be doubled to 500 restaurants in the next 3 years.
- It is surprising that even after twenty three years of entry none of the organized players have been able to cover 100 Indian cities. McDonald’s plans to accomplish this target by large scale expansion of supply chain and operations. All McDonald’s restaurants are drawing huge footfalls from the youth, a sign of the growing acceptance and westernization of food and culture in India.
- ‘Experience of the Future’ (EOTF):
  As part of a brand transformation, McDonald’s India is launching a series of concept restaurants with enhanced digital capabilities to improve customer experience, and
expects to open 5-10 outlets in the city in the next 18 months. Called 'Experience of the Future' (EOTF), the McDonald's outlet in Mumbai features self-ordering kiosks, table service, and has also introduced several healthy options on the menu. The company has enhanced its efforts in the area of sustainability by installing smart hand wash systems that will help save about 4 lakh liters of water a year. It has also used power-saving LED lighting, and is using reusable cups and bio-degradable cutlery in these stores. McDonald's has also refreshed its delivery application, and says about 50 per cent of sales comes from online ordering, through its app and website.

- 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.

10. LIMITATIONS

- Indian diversity and Religion/Cultural constraints:
  People in India are majority vegetarians and a large mass of people still doubt the meat used in preparing the burgers, where is it sourced from and how fresh it is. All these factors stop the people from consuming the burgers.

- Environmental and animal activists opposed the entry of fast food (like KFC and McDonald’s):
  Activists protest the ban of such outlets because of usage of animal meat. Many documentaries reveal how the chicken is hybridized to gain more fat. These hybrid chickens destroy the habitat of the animal and are definitely not healthy for human consumption as well.

- Studies reveal that junk food destroys the ecological balance and cause several behavioral disorders because of the fatty and unhealthy substances. People are moving towards problems like obesity. With the pricing of such products going as low as 25 Rupees anyone can afford the burgers. Especially college students end up consuming more of these because they are cheap and easily available.

- Poor Transportation and lack of Good Infrastructure:
  India lacks proper infrastructure and transport which in turns affect the quality standards of the products. This includes the storage houses where the meat and various other ingredients are stored. This directly impacts the health of the consumers who tend to fall sick after the consumption of these burgers or other related products.

- Political Shifts in the country:
  Political shifts lead to change in rules, strategies in the country which adversely affects the businesses especially foreign brands. Example demonetization in India leads to the rapid fall of the Indian market causing massive losses to every business and more to those of foreign origin.
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