

Foreign Trade University

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McDonald's Vietnam Strategic Analysis

Strategic Management

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Hanoi, March 25th 2014

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Strategic Analysis

PART I: AN INTRODUCTION: BACKGROUND TO MCDONALD'S ROAD TO INTERNATIONAL

1. History of McDonald's Company



McDonald's headquarters is located in Oak Brook, Illinois, United State. It is the largest chain of hamburger fast food restaurant in the world. The company logo is McDonald's with a big yellow "M". Richard and Maurice McDonald started the first McDonald's store from 1950s in the US, and it primarily sells hamburgers, French fries, dessert, and salads. In 1955, when the first McDonald's restaurant was founded in the United States, there was not much variety on its menu, but they offered food supply with high quality, low cost and good environment. By 1983, there were more than 6,000 domestic branches. In 1967, McDonald's opened its first overseas branch in Canada. By 1985, its total abroad sales accounted for about 20 per cent of its domestic business. Every day there are more than 18 million people coming to McDonald's in more than 40 countries. Nowadays McDonald's has more than 3,400 locations worldwide with a revenue of 27.56 billion US dollars.

The brief background of McDonald's:

The name of McDonald's (English name)	McDonald's
Headquarters location :	America
Establishment time:	1954

Business field:	Western-style fast food, desserts
Company slogan:	I'm lovin' it
The number of employees:	1,800,000 (2013)
The stores in Vietnam:	1 (2014)

In 2013, Nguyen Bao Hoang, a businessman and a son-in-law of Prime Minister Nguyen Tan Dung, had the license and brought the first officially McDonald's restaurant in Ho Chi Minh city, which is roughly 3,000 square feet and can accommodate 350 customers. Its second Vietnam restaurant, which currently is under constructing, is near Ben Thanh Market, at the heart of Ho Chi Minh City, for a near future opening.

2. Major products and sectors of business

McDonald's original restaurant served only hamburgers, cheeseburgers and milkshakes, and the early 1960s, they added French fries. Comparing with the menu today, it has numerous other items that have been added such as a Big Mac (a signature product, introduced in 1967, with ground beef patties, Big Mac sauce, lettuce, cheese, pickles, and diced onions on a sesame seed bun), Big Tasty, introduced in 1997, which configuration is somewhat different, consisting off a third-pound(150g) beef patty, sesame seed bun lettuce, tomatoes, onions, Emmental cheese), Snack Wrap, Happy Meal, Egg McMuffin, Apple Dippers and Baked Apple Pie, Chicken McNuggets and Chicken Select Strips, Premium Salads, McGriddles Breakfast Sandwich,.....

When they first entered to other countries, there was a big problem with the menu because of the different culture and custom. Therefore, In order to cater to local tastes and culinary, and often in respect of particular laws or religious beliefs, McDonald's offers regionalized versions of its menu among and within different countries. As a result. products found in one country or region may not be found in McDonald's restaurants in other countries. For example, for

Macdonald's in India, the menu doesn't have beef and pork product, in deference to Hindu and Muslim beliefs.

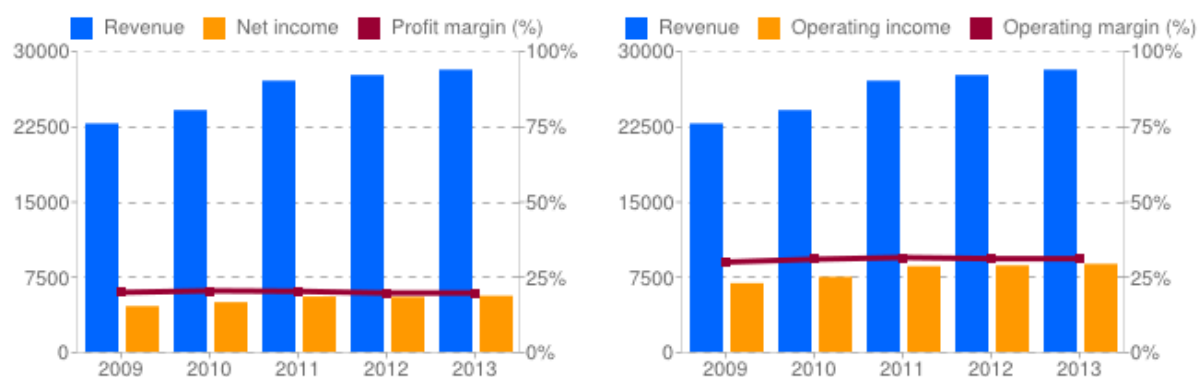
However, there is some products that are very popular in all over the world, such as French fried, Big mac, Chicken McNuggets and Chicken Select Strips, happy Meal, double cheeseburger,....

After researching Vietnam's market, beside Big Macs, french fries, Chicken McNuggets, Macdonald's Vietnam added one menu item, it is Mcpork sandwich.

3. Recent Activities

In recent years, Despite of the highly competitive of other rivals such as Burger King, KFC, etc... McDonald's Corporation applied new strategies, which made the giant fast food chain get many achievements.

From the graph below, although the recession was happening, the revenue of McDonald's was still rising slightly.



About McDonald's Vietnam, running only more than one month, McDonald's Vietnam got great achievement.

The director, Nguyen Bao Hoang stated that the number of customer they served highly exceeded the expectation. Only the first 24h, they had served 22,500 clients. After 30 days of activity, the number of customer of McDonald's is more than 400,000 with the amount of Big Mac that was consumed about 61,980.

The first success that make the Board of Director of McDonald's Vietnam consider about the opening of the second restaurant, it will also open in Ho Chi Minh city.

4. An analysis of the choice of foreign market.

McDonald's Corporation is the largest chain of fast-food restaurants in the world which specializes in hamburgers, French fries, and soft drinks. McDonald's is famous in 119 countries of the world. Company's international success is guaranteed by the methods which McDonald's uses entering foreign market. "Think global, act local" describes the goal which McDonald's follows in foreign countries. After attaining success in the US, McDonald's opened its first international restaurant in Canada on June 1, 1967. More restaurants followed afterwards up to now have appeared all over the world.

The main reason for a company's international path is profit and there are more minor motivations in the background. Seeing the potential trend of modern life, McDonald's enlarged its scales oversea to create a new wave of fast food in other countries. At first, the chain of McDonald's stores was opened in Europe area where people have almost the same taste as American in the seventeenth century. Then McDonald's travelled to Asia where business lives are becoming adapting to working intense pressure. Seeing those fertile lands, McDonald's decided to bring American style to over sea to get a countless profits. When the domestic market reached maturity and domestic resources become too expensive, a company will search for other sources abroad at lower low cost.

By doing so, they could optimize profitability and comparative advantages. The company motivated by increasing efficiency invests internationally in hopes of gaining new market and sources that would bring economies of scale and diversification on risk. Doing this business enables McDonald's to take the best out of each market. The main customers of McDonald's are medium- and high-end

classes who can afford and have more demands on its products. Moreover, McDonald's invests in countries which have growing GDP and in the highly developing period. Vietnam is a stalk example of its global targets when McDonald's entered Vietnam in its period of recovery from financial crisis and Vietnam is one of the highest GDP countries in Asia with 6% per year, second only to China.



Strategic Analysis

PART II: BUSINESS STRATEGY OF MCDONALD'S IN VIETNAM

1. External analysis for McDonald's in Vietnam

a. PEST model

i. Political

Since the entrance to WTO, Vietnamese government has had a lot of policies to encourage Foreign Direct Investment (FDI). In detail, according to Resolution No.103/NQ-CP issued on August, 29th, 2013 *“on the orientation towards enhancement of efficiency in attracting, using and managing foreign direct investment capital in the near future:*

- *Performing additional study to supplement the criteria for application of investment incentives other than on the sole basis of investment domains and geographical areas such as: projects in supporting industries, highly value-added projects, projects consuming a large amount of domestic material, projects with commitment to transfer advanced technology.*
- *Reviewing and removing excessive restrictions and allowing greater participation in capital markets and financial markets on the principle of effectiveness and closeness;*
- *To complete the regulations so as to strengthen the management of labor in foreign investment projects;*
- *To complete the mechanism and policies to attract foreign direct Investment into supporting industries; study and draft the Law on Encouragement and Development of supporting industries;”*

First, there is no doubt that McDonald's brought a rather huge capital to Vietnamese fast food industry, following the encouragement of Vietnamese government to FDI enterprises in Decree No.103/NQ-CP.

While state investments have been decreasing significantly and non-state ones are still having difficulties in real estate, gold and foreign exchange markets; McDonald's is famous for not only fast food retails, but also its investment in real estate. In the form of “Business facilities Lease” franchise, the franchisor (McDonald's) has rights to repurchase all assets after the first business year, and then extend 20 business years more for the franchisee when the first period

of the contract is completed. This term of the contract brings a considerable spread of repurchase to McDonald's. This type of real estate investments is quite new in Vietnam. It can be said that McDonald's has been taking advantages of locations effectively by getting profits from repurchasing assets and dominating main car driving directions to provide its distinct service "drive-thru".

Second, Vietnam political situation is supposed to be stable at the moment and there would not many changes in regulations as well as administrative systems of Vietnamese government in the next years. This is one of the very important factors which help entrepreneurs build their right strategies because political situations have a great effect on domestic consumption.

Beside these above advantages of political status in Vietnam affecting McDonald's strategies, there are still minor hindrances. Though our government has been encouraged corporations with FDI to invest in Vietnam, there have been a number of complicated procedures and documents. Moreover, Vietnamese administrative controlling systems are not explicit, the corruption still exists in a variety levels of authority. These facts are time-consuming and cause an unfair competition.

ii. Economic

The economy has a great impact on every industry from firms that supply raw materials to those that manufacture finished goods and services and that is, fast-food industry is certainly no exception.

Since the financial crisis from 2008 has influenced on Vietnam economy, the number of the unemployed has increased significantly, people's consumption has been melting down. It was a big threat to every business from small stores to big corporations. However, the situation has been a bit better from the end of 2012. While other big brand names in fast-food industry such as KFC, Lotteria, BBQ, Jollibee experienced the worst economic situation, McDonald's chose the right moment to enter Vietnam. With its targets are medium- and high-end classes of customers, McDonald's do not have to worry about the market when Vietnam has a rapidly growing economy with more than 90 million people who all want a taste of American fast food.

According to Bloomberg, only on 2 starting days, there were more than 40,000 people queuing to buy a set of Big Mac and its revenue in these days proved the potential consumption.

However, we also need to look into the side effects of economy and its future trends. As the announcement of McDonald's Vietnam's owner, all raw materials are imported from the global supplying chains of McDonald's (beefs from Australia, pork and potatoes from US) while these imported products are highly taxed in Vietnam, tax rate for imported beef is 5%, potato is 20%. If McDonald's does not have any intention to find domestic partners to supply those materials, it will have to spend a huge budget on not only tax payment but also transporting, preserving expenses.

iii. Socio-cultural

As mentioned above, Vietnam's population is quite young, almost citizens were born after the war. Therefore, on one hand, young and dynamic people easily accept and adapt new trends from western countries. On the other hand, fast food has been playing an essential role in modern and busy life, especially, in big cities where people have to work a lot and need more time for other activities rather cooking at home. A restaurant with tasty food, nice space and decoration and reasonable prices is an ideal place or we can even take a set away and have it on the way to work and school. Besides, Vietnamese people seem to prefer the fame. The large number of the young comes to fast food restaurants not only to have a fast and convenient meal, but also to state that they are in a famous restaurant. That is the reason why fast food in western countries is nothing more than the one with low prices and convenience whereas in Vietnam it is supposed to be a luxurious food for medium and high classes. With this trend, the chain of McDonald's stores will have a potential and big market in near future.

We all can see how giant profit McDonald's Vietnam has got since its opening. Nevertheless, it has just been in operation for only more than one month. The temptation at the beginning cannot pronounce the growth of a business. Looking into other fast-food brands, they also had big welcomes from the Vietnam market because they were so new, tasty, and western. Yet, their margin revenues have been slowing down when people became more familiar with these kinds of food, their curiosity for this western food style was over, and the

most important reason is that fast food has been proved to be harmful to human's health, causing obesity and other diseases because of not fresh ingredients. Furthermore, it would not be easy to change eating habits of Vietnamese because of different tastes between western and eastern cuisines. We cannot predict that McDonald's will not follow the pathways of prior fast food companies or not.

iv. Technological

As many other modern stores, McDonald's provides free wireless internet access inside of their outlet in order that their customers can easily browse internet while eating. However, the most outstanding innovation of McDonald's came from their drive-thru section with a touch-activated screen that makes it easier for customers to order, they only need to punch in their orders without queuing. It also provide features including music aiming at queuing vehicles and a wall of window on the drive-thru side to allow customers to have a look at their meals being prepared right from their cars' windows.

However, McDonald's has not had an official online website in Vietnam, which makes it more difficult for customers who want delivery service to order while other rivals have online selling systems.

In conclusion, even though McDonald just newly entered to Vietnamese fast food industry, it seems to be their plan for the late arrival. In comparison with other giants, McDonald's does obviously not have disadvantages of a new comer, its advantages are even more outstanding than others' because it has finance, reputation and good relationships with the local authority.

b. Five force analysis

i. The threat of new entrants

Though it is not too expensive to start up and operate a fast food restaurant, it is really difficult to compete with established leaders in the industry as KFC, Mc Donald, Burger King. Their products are standardized with menus of variable sets at low prices. In addition, Mc Donald has a very strong brand with loyalty from its customers. As reported, there were more than 40,000 people queuing to buy a Big

Mac only on 2 opening days. Therefore, a new entrant needs a significant amount of capital investment to expand economies of scale in order to lower cost.

There are always local competitors with an international company like McDonald's. The fact that not all people get accustomed to having fast food, the large number of Vietnamese, especially the old, prefer traditional foods. Though there are a lot of famous traditional restaurants, their scales are still small. Some of them have tried to open a range of stores but their controlling systems, quality and services have not been as good as the origin, which leads to customers' dissatisfaction.

In conclusion, it can be said that the threat of new entrants to Vietnamese fast food industry is very low due to high barrier of the industry.

ii. The bargaining power of buyers

According to five force analysis, the buyer power is high in one industry if there are fewer buyers than sellers on the market. In the case of Vietnam, there are several well-known brands such as KFC, Lotteria, Burger King, BBQ Chicken, Jollibee, however, in comparison with the demand, supplier power seems higher. Another factor that increases buyer power is that customers begin to produce seller's products themselves. This is a high possibility because traditional Vietnamese families have the habit of cooking and eating at home. Nevertheless, it is time-consuming and costs them an equal or higher amount of money to serve themselves at home. Therefore, a lot of people choose to have a meal at a fast food restaurant with a set of many dishes at reasonable prices.

If substitute products are available on the market, buyer power is high. As mentioned above, the competition of local food is also a drawback for McDonald's but without a considerable amount of capital investment to increase economies of scales and strategies to attract more customers, local restaurants should not be a threat to McDonald's at the moment.

It can be said that McDonald's is dominating the fast food market because it pushes its power into their customers.

iii. The bargaining power of suppliers

McDonald's has a global supply chain of quality materials at fair prices, and suppliers are surely content with supplying to a large consuming company like McDonald's. However, in the case of McDonald's Vietnam, almost raw materials, especially beef, pork and potatoes from other countries. This leads to high expense for transportation, reservation and tax of these commodities.

While domestic suppliers have not had access to foreign companies because their product quality is not standardized, and they do not have ability to supply a large quantity of order, in addition, Vietnamese enterprises always regard foreign corporations as their competitors. Consequently, it is really hard for McDonald's to find a domestic supplier. However, by focusing on research and development (R&D), McDonald's can invest and build its own manufacture in Vietnam or transfer technology to a domestic trustworthy partner to minimize expense. In general, the bargaining power of suppliers is moderate.

iv. The threat of substitute products and services

As mentioned above, there are a great number of substitutes on Vietnamese fast food due to eating habit of Vietnamese people. However, at present they are far from a big threat to McDonald's because of their lack of capital, experience, and technology to develop into massive scales.

Yet, they may be potential threat with the union of a lot of restaurants when people's appetites to fast food fall off and their awareness of diseases that are caused by fast food like obesity and dyslipidemia, then customers may choose other alternatives. Consequently, the threat of substitute products and services is moderate.

v. Intensity of rivalry among competitors in an industry

It can be said that intensity of rivalry among competitors in the fast food industry in Vietnam is really high. Prior to McDonald's invasion, there has been a fierce battle among giants such as KFC, Burger King, Lotteria, Jollibee, Pizza Hut...They have been competing in not only quality, the variety of dishes in menus, but also delivery services and other promotional campaigns. For example, Burger King is running a "hot deal" to offer a full set at very low price, only 39,000 VND per a combo.

As a late comer, McDonald's had better have its distinctive competences and consider strategies which are suitable to Vietnamese customers and give them unique products and services that other competitors cannot.

2. Industry analysis

According to Euromonitor International, Vietnamese fast food industry has a potential development trend with a value of more than 543.6 million US dollars, annual growth rate went up from 13.9% in 2012 to 15% in 2014.

There are 3 characters to determine competitive environment in an industry:

- Rivalry within the industry is intense.
- Role of government is minimal.
- Spending on advertising is high.

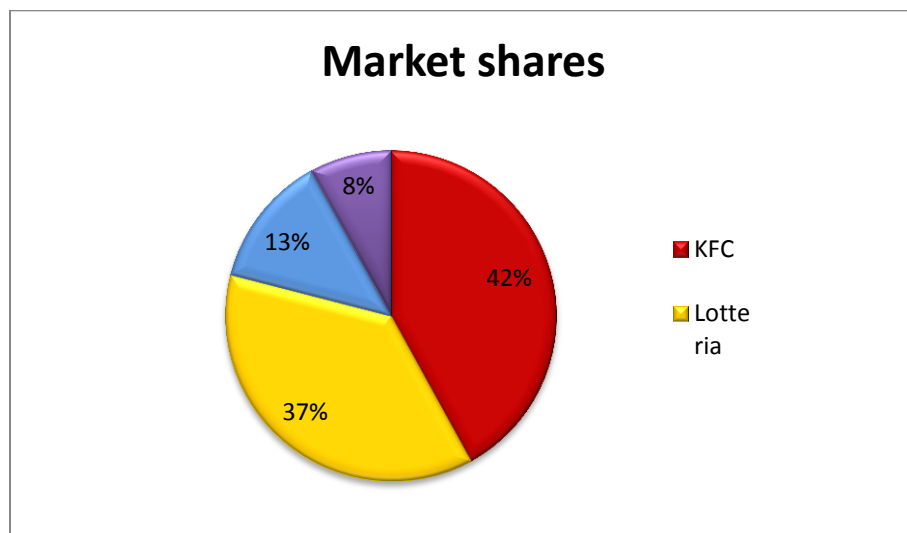
Speaking about rivalry, Vietnamese fast food industry can be regarded as a big pie that many big enterprises want to take a part in. With market advantages of Vietnamese high population, in which young people who easily adapt new waves from western culture take the majority, and the big brands as well as strong financial resources, the "foreign preference" psychology of Vietnamese people, foreign brands can overwhelm domestic companies easily. Hence, the fast food area is almost a game filed among outsiders.

Specifically speaking, the major battles are now among 3 giants: KFC – Lotteria – McDonald's. KFC is the first fast food brand in Vietnam with its conquest to Vietnam in 1997. As the result, in almost every Vietnamese's concepts, fast food means KFC. While Lotteria is reported to own the most stores which rapidly grown in recent years. Besides, there are several big brands in Vietnamese market such as Burger King, Jollibee...

Table 1.Comparison among McDonald's rivalries

Thương hiệu							
Quốc gia gốc	USA	Korea	Philippines	USA	USA	USA	USA
Số lượng Cửa hàng trên thế giới	32,500	1,577	720	11,600	10,000	12,000	38,000
Ngày mở cửa hàng đầu tiên tại TP.HCM	Tháng 7/1994	Tháng 5/1998	Tháng 3/1997	Tháng 1/2007	Tháng 12/2012	Tháng 10/ 2012	Tháng 4/2011
Đối tác nhượng quyền tại Việt Nam	KFC Việt Nam	Lotteria Việt Nam	JFC Việt Nam	IFB Holdings (VN) & Jardine Restaurant Group (VN)	Imexpan Pacific (Nhượng quyền độc quyền)	Imexpan Pacific (Nhượng quyền độc quyền)	IFB Holding
Số cửa hàng tại TP.HCM	62	67	11	15	11	5	3
Sản phẩm chiến lược (Destination)							

Chart 1.Market shares of fast food brands in Vietnam in 2012 (FTA Research)



In general, the control of governments about fast food industry is not too tight other than oversight of food safety. Especially, the Vietnamese government encourages this industry to develop with open policies for foreign enterprises.

The final character for a competitive market is high expense for advertising. It can be said that quick service restaurants are dominated by large chains which possesses huge national marketing budgets that advertise heavily on television and through promotional tie-ins with movies and sports. The stalk example is McDonald's when it has spent a large budget to make a promotion campaign "Happy Meal" related to recent famous cartoons like "The Smurfs Happy Meal", "Minion Madness at McDonald's!", "The Croods – Good Food Hunting", and enclosed a small puppet in each product.

Industry boundary is another determinant in one industry. It can change overtime as customer needs evolve or new technologies emerge. Most of the fast food restaurants are now offering shipment service at low charge because internet sales have developed so customers can order at home and call for the delivery. McDonald's has also expanded its commodities when serving its customers with coffee. This is one of the great innovations of McDonald's to compete with Starbucks when people would prefer to enjoy their meals with a cup of coffee at the same place or even on their cars without travelling a lot.

3. International analysis

Global standardization strategies

McDonald's has expanded to international markets in the face of increasing regulations in the United States and domestic market saturation. They initially entered international markets by leveraging standardized product offerings, clean and bright environments, and American brand equity. By increasing economies of scales, cost pressure can be significantly reduced. Consequently, the buying costs diminish, as the time spent on production, distribution. The advertising is also standardized. Indeed, the priority in advertising is the

television, spending around two million dollars per day on this promotion channel. The advertising is not hard to spread globally as the products, slogan, image, packaging are all the same. Indeed, it is part of McDonald's rules: some of the products sold in these restaurants keep being the same: burgers and mainly menus can be found in any franchise of the firm. Employment is also standardized. Obviously, in this case we are not focusing on the people but their processes. McDonald's counts about five hundred thousand employees worldwide who have been taught the same procedures and methods. They reproduce the same movements, which are minute and controlled. They repeat the same sentences and look at the eyes at the same moment (when they give customers change back for example). Employees have to be homogeneous, such as the products and brand; that is also why they all wear the same uniform. They actually are trained with the same "textbook" which transcribes all the rules about preservation of food, the cooking time, the cleanliness, but also the partition and distribution of strictly defined tasks. For instance, only the "cooks" are authorized to touch the food. These "textbooks" and strict rules are what enable McDonald's to perform their objective of same products and same services and finally, the ultimate goal to reduce costs and attain economies of scale.

Localization strategies

The marketing and products offered are the main points that suffered from adaptation. Here, the almost only variable is the local culture, which shows its importance for McDonald's but also for the catering industry. First, the architectures and atmospheres have been modified throughout countries and cultures. The goal was to not get people bored too, and diversify its offer. The websites are translated, designed differently according to regions. But the main adaptations have been made on the products part of Marketing Mix. The firm's specialties have been adapted to the local tastes. For example, in India, most of the burgers are made from lamb or chicken. And they created the Chicken Maharaja Mac in New Delhi, just like the Kebab Burger in the Middle East for the Philippines. Actually, the franchises helped a lot on the adaptation processes, and made their contribution to the apparition of beer in the European franchises, but also the Mc Arabia in the Middle East.

Adaptation strategies in Vietnam

Vietnamese customers are loyal to their Vietnamese cuisine with a rich eat out tradition. Vietnamese food depends deeply on rice grown in water paddies throughout the country, with cuisines varying from simple everyday meals to complex cuisines designed for the Monarch. Attaining a balance between meat and fresh herbs; as well as a careful use of spices to get a fine taste, Vietnamese is said to be one of the healthiest yet most divine cuisines globally. To be profitable in Vietnam, McDonald's has introduced some kinds of local products like "McPork" as the favorite taste of Vietnamese.



4. Business strategies of McDonald's in Vietnam

a. Corporate-level strategies.

Concentration:

McDonald's corporate level strategy is concentration in a single business. This will help the business to concentrate on a single task and gain power, market share and consumer loyalty in result. This is because they will run many strategies, plans and researches to find the

best solutions of the consumer needs and preferences. However this can be very risky if the business fails to meet the right needs of consumers and therefore will not be profitable and as a result will close down due to bankruptcy.

Diversification:

MC Donald's diversifies its operations in many ways. The firm uses related diversification which is to produce similar products which are burgers and salads mainly but in variety of choices e.g. Big Mac or Mac chicken, different kinds of salads, and also they operate in more than one geographical area but still performing the same task. In Vietnam, the menu includes McPork sandwiches, pioneered for the pork-loving country.

Moreover, it has opened MC cafes all around the world. McCafé is a coffee-house-style food and drink chain, created and launched in Melbourne, Australia in 1993 by McDonald's Licensee Ann Brown. The chain reflects a consumer trend towards espresso coffees. In Vietnam, McCafé opened in 22th March. McDonald's gains many advantages by doing related diversification build a synergy by co-operating and coordinating the food and the coffee together to enjoy the same facilities such as the advertisements, supplier and the location.

c. Business-level strategies

Creation of a business-level strategy builds on functional-level strategies and involves two steps: (1) selecting the domain(s) in which the company will compete, a decision that should be based on where the company's core competencies can be best leveraged; and (2) for each domain that is selected, deciding whether to compete using a low cost strategy, a differentiation strategy, or both.

Internationally, McDonald's has successfully executed a combined differentiated and low-cost business-level strategy in its chosen domain—the fast food industry. Using its functional core competencies in marketing McDonald's has had a long-standing practice of creating and disseminating sophisticated advertising and marketing messages that have established the company as a unique brand name in the industry and successfully differentiated it from its

competitors. At the same time McDonald's has developed legendary core competencies in supply chain management, including manufacturing and distribution, to carefully control its costs.

McDonald's Vietnam shares the same core competencies with other McDonald's franchises in the world. Moreover, with a high internet penetration and a fast information transfer, McDonald's in Vietnam relies on its brand strength of its parent company, even though people who haven't been to McDonald's still know its reputation. However, instead of emphasizing on a low cost strategy, because of its late entrance into Vietnamese fast food market, McDonald's Vietnam uses a differentiation strategy to compete with its competitors such as KFC, Burger King, etc..... McDonald's differentiation strategies are product, place and customer service.

Product Differentiation Strategy

Quality: This is the foundation in which McDonald's wants to encourage consistency among restaurants. Like other McDonald's franchise all over the world, McDonald's Vietnam commits to give customers the highest quality products. Because of the low and inconsistency quality of ingredients from Vietnamese suppliers, McDonald's only uses two Vietnamese ingredients – tomato and lettuce from Da Lat. All beef is imported from Australia, pork and potatoes from the US, and paper boxes and cups from China or Malaysia.

Local Product Development: As McDonald's has expanded internationally, it has created several products to meet consumer demand in the local markets. In the Netherlands, for example, they have developed the McKroket, a burger featuring a typically Dutch kroket, a deep-fried, ragout-filled patty. In the Canadian province of Quebec, McDonald's offers poutine, a traditional dish of french fries, gravy and curd cheese. And in Vietnam, the menu includes McPork sandwiches, pioneered for the pork-loving country.

Place Differentiation Strategy

Position: To many people's surprise, the fast food giant from the US has not chosen a place in the central area of HCM City for its first shop. McDonald's has placed its first restaurant in Dien Bien Phu Street, the strategic road which leads to northern provinces and links to the other southern localities – the important economic and tourism centers – such as Dong Nai, Binh Duong and Ba Ria – Vung Tau. With McDonald's introducing **the drive-thru service**, which allows customers to purchase products without leaving their cars, for the first time in Vietnam, the customers who possess cars will surely want to try McDonald's products and services, including **the drive-thru service**. As such, by setting up a shop on the position, McDonald's would be at the "center" of the car flow from the south to the north.

Internal Design: The first shop of McDonald's in Vietnam would cover a very large area of 1,300 square meters. Designed in accordance with McDonald's standards, the shop would have a sophisticated world – standard playground for children, a café, **serve clients 24/24** and comprises a parking lot.

McDonald's has every reason to set up its first shop at the traffic gateway of HCM City, a dynamic economic center. McDonald's has taken a "bold, but feasible step" in its way to conquer the Vietnamese market, when the downtown has become too crowded with hundreds of shops bearing other fast food brands. McDonald's is now building its second Vietnam restaurant near Ben Thanh Market, at the heart of Ho Chi Minh City, for a near future opening.

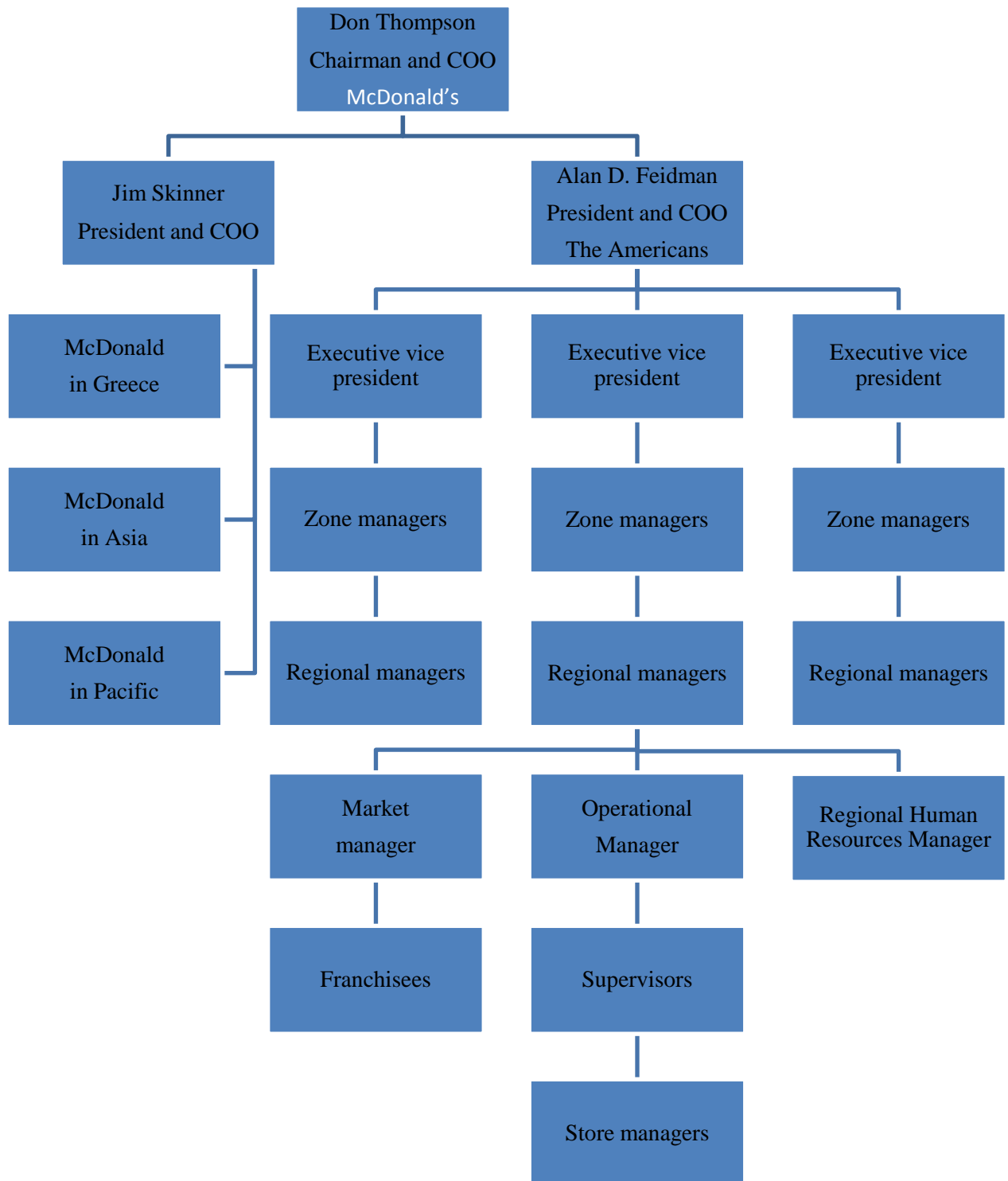
Customer Service Differentiation Strategy

In Vietnam, McDonald's promotes efficiency service. Before opening, over 50 members of the staff spent at least seven months training in the Philippines to learn appropriate operational and management skills. This training is standardized for all McDonald's employees globally. They have trained both in theory and practice on how to perform the best customer service. And the company locates restaurants just off of highway exits and in well-traveled business districts. This factor makes it easier for cars and motorbikes to stop in. Additionally, McDonald's Vietnam stresses its fast ordering process. The branch seems to be utilizing new technologies that haven't caught on yet in other countries to expedite the process of ordering food. Customers waiting in line are handed an electronic handheld device on which to place their

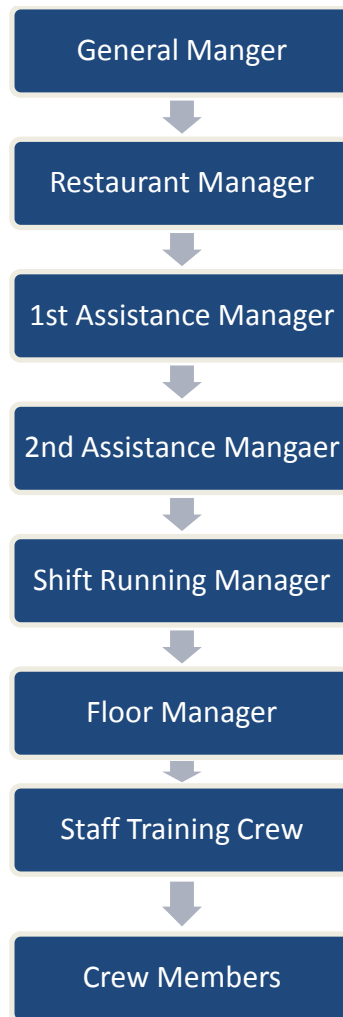
order before they even reach the counter. This method saves much more time. Moreover, McDonald's restaurant operates 24/7 and offer car and motorcycle drive-thru with a three minute per customer service plan. These services are all introduced in Vietnam for the first time.

4. Organization Structure

At senior top management level:



At restaurant level:



5. Modes of Market Entry

McDonald's is one of the world's largest chains of fast food restaurants. They operate thirty two thousand restaurants serving more than sixty million customers daily. The key to rapid and successful international expansion of McDonald's is **the franchise model** pioneered by them. Franchises give McDonald's a cheaper way of expanding to other countries while also giving the control over the usage of their brand and operations.

McDonald's expansion in Vietnam is not an exception. July 15 McDonald's Global announced that Nguyen Bao Hoang, who manages IDG Ventures Vietnam, has become its official partner in **a franchising contract** to develop McDonald's brand in Vietnam, through Good Day Hospitality. Good Day Hospitality representative do not disclose the amount of money that it has to pay to bring McDonald's to Vietnam. But according to experts' calculations based on documents on franchising, franchisee must spend about \$1-1.9 million to be allowed to open McDonald's restaurants.

6. Performance

The outlet opened to a hungry crowd on Feb 8, and within 24 hours had served almost 22,500 customers. 61,980 Big Macs were sold in its first 30 days of business and that the number of customers had already exceeded 'even what we thought were pretty high expectations. The first McDonald's restaurant was estimated to serve 400,000 customers in first month. The director, Nguyen Bao Hoang stated that the number of customer they served highly exceeded the expectation.



Strategic Analysis

PART III: CONCLUSION AND RECOMMENDATION

1. Recommendation

McDonald's should continue using a scheme that satisfies their Vietnamese employees through a benefits program that energizes, attracts, retains and rewards talented staff who are able to generate superior results and boost the corporations leadership position in the fast food industry.

McDonald's should conduct a comprehensive market survey of competitors' store locations in Vietnam combined with demographic data that will help McDonald's management discern market gaps, Improving profitability and overall efficiency.

McDonald's should continue to have the right products at the right price. Consumer taste inclinations are changing daily and McDonald's must respond by providing a variety of taste and price preferences in order to maintain their competitive advantage alongside other fast food companies.

McDonald's must keep promoting their branch in Vietnam. This should include motivating the employees to work for the brand, taking the lead on environmental issues and promoting consumer health matters.

2. Conclusion

McDonald's are encountering some tough challenges because of its late entrance to Vietnamese fast food market. Fundamental to its prospective success will be maintaining its core strengths – a persistent emphasis on consistency and quality – while prudently testing with innovative options. McDonald's could also look into growing more aggressively in other Asian and African countries where the prospects for substantial growth are greater.

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