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# Differentiation, Cost Leadership, or Ending Up in the Middle? A Reflection on the Viability of Porter's Generic Strategies through a Case Study Comparison of McDonalds and Starbucks

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*Why most businesses cannot retain any would-be competitive advantage even if they are the chief actors in a market or markets that it is them that have made profitable? Should we contemplate a current competitive advantage as a formula for uninterrupted success, or all is a misconception of a dominant paradigm that has locked the corporation to the profitable bygone days not letting them to look at the future and accordingly leaving behind profit prospects? The purpose of this study is to challenge the myth of sustainable competitive advantage presumably obtained through Porter's Generic Strategies framework by examining what really occurs in the fast-food market at present. This is done through an assessment of the Cost Leadership and Differentiation strategies seemingly applied in McDonalds and Starbucks respectively in relation to planning, accumulation and use of resources, and the generation of core competences (or internal dynamics), if any. And, to seek if it is possible, or not, to tie sustainability of any long-term earnings with these firms' best usage of in-house competencies as well as their skill to anticipate key environmental blows (or external dynamics). The writers adopt an interrogative attitude to the classical strategic management theory and, based on the results of the study, they go on to maintain the opinion that there is not such a thing as an advantage that is for ever viable. At the end of the study, the authors, again based on the results, suggest ways to increase the possibility of sustaining any strategic advantage for the specific firms. It is expected that these reflections will encourage more research in the area.*

**Keywords:** *strategy, globalization, competitive advantage*

## Introduction

Past research has shown that putting on a strategy right played for several years a vital role in the future of organizations (Johnson and Sherman 1990). In the past this seems to have happened because a strategy that was well scheduled and applied used to deliver a sustainable competitive advantage and to get to company realization in a more or less stable environment (Hodgkinson and Wright 2002, Mackay and McKiernan 2006). Nevertheless, this does not seem to be the case in the rapidly changing and uncertain business setting of the 2030's (El Namaki

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2016). More recent research shows that although corporations apply strategy correct and succeed to grasp a competitive advantage for some time in one or more markets, the sustainability of any such benefit in itself seems to be problematical in our fast-changing world (Volberda et al. 2021, McGrath 2013). At this point the reader needs also to consider that important studies have similarly illustrated that for strategies to be successful in the gross unpredictability of today's markets, they have to be prolonged or contracted by the internal and external dynamics in a firm's operational setting (Schwab 2017). By 'internal dynamics' the authors of the present paper mean the core (or distinctive) competencies of the corporation (see: Prahalad and Hamel 1990). To explain this further, core competences are the unique strengths of the organization which are the results of using its resources effectively and efficiently, takes time to develop, cannot be copied by rivals, and can seemingly lead to a competitive advantage which can be either cost leadership or differentiation in its own right (van der Heijden 2005). Similarly, 'external dynamics' are the environmental predetermined elements, or the perceived certainties, on one hand, and the uncertainties, or the unpredictable elements, in a given environment on the other hand (Schwartz 1991). In strategic management implementation analysis these 'external dynamics' are always mapped with the degree of impact that they will have for a specific company that is planning for competitive advantage (Sarpong and Amankwah-Amoah 2016). It is argued that high impact uncertainties in a given firm may overturn any strategy in the organization (Eden and Ackermann 1998). Once this is done, then 'external dynamics' are combined with 'internal dynamics' to shape the possible future or different futures of a corporation, usually by developing foresight strategies or by applying scenario planning, both of which are having the ability to prepare us for multiple but equally plausible futures (Fuller and Loogma 2009, Hodgkinson and Healey 2008).

This being the situation, two factors seem to prop up the choice of a strategy in today's markets. The first is the attractiveness of a given market, in the short, medium and long terms (Porter 1985). The second is the relative positions of the different rivals in this market, and the internal capability of a certain company to use its competencies better than its competitors to create and possibly sustain a competitive advantage (Lauritzen and Karafyllia 2019). This work purposes first to detect the foremost entry barriers in a 'cash cow' industry, and subsequently to assess the validity and applicability, or not, of generic strategies by means of actual examples through an evaluation of the cost leadership approach applied by McDonalds and the differentiation tactics adopted in Starbucks. Mc Donalds and Starbucks are chosen to be discussed in this paper as they seem to present perfect examples of companies following a cost leadership versus a differentiation strategy, therefore making this contrast vibrant. This issue is discussed in detail later in this work. To come back to the cash caw discussion, a 'cash caw' industry is a market with products that are in a low growth category but for which a specific business has a relatively large market share (see Henderson 1970) such as the fast-food market which is dominated by McDonalds (196,526 million US$) being in the first position, and Starbucks (61,759 million US$) being in the second position on a global scale (Statista 2023). Therefore, these two firms are the protagonists of the fast-food industry and present an interesting case to investigate further. Likewise, cost leadership and differentiation strategies are explained fully below. Likely prospects and pressures for the aforesaid market are also to be appraised. What the reader has to keep in mind at this point is that no sustainable competitive advantage seems to be possible without mapping the 'internal dynamics' with 'external dynamics', explained above, for the long term (Chia 2008).

## The Methodology

The researchers have undertaken a series of in-depth interviews with Customer Service, Operations, Sales, and Finance managers from McDonalds' and Starbucks' operations in India followed by focus group discussions. In-depth interviews were chosen because they permit us to go much deeper into issues than any other method because they take a long speaking time and added insights are expected to be obtained (Harding 2018). Moreover, any anticipated prejudice on behalf of the interviewer is expected be less than any other interview method (Alon et al. 2020, p. 161). In turn, focus groups are preferred because they can arrive to more widely acceptable insights and decisions when compared with decisions taken by single individuals (Manzano 2022). During the interviews the authors have acknowledged some specific subjects of primary interest, like 'the use of existing resources', 'pricing, sales, and profitability' and 'any operational areas within the specific businesses that the interviewees considered as being weak or vice versus', but had not a prescribed guide for the discussion. The reason for this was to let the interviewees express themselves openly and freely. The objective of these in-depth interviews and the subsequent focus group discussion sessions, was to identify any weak or strong use of resources by these two firms primarily in India but also to compare with what happens in their operations abroad, and how these resources would, as per the perceptions of the participants, turn to core competencies that in turn would possibly lead to a sustainable competitive advantage for these businesses in the future.

The reflections of the in-depth interviews and the focus group discussions have helped the writers to draw the Business Ideas of both the corporations at a later stage. As Wright and Goodwin write, a 'Business Idea', - that is a pictorial representation of how a firm gets any competitive advantage by using its knowledge, experience, talents, resources, and competencies, - helps to identify a company's 'internal dynamics' (see Wright and Goodwin 1999) which is so crucial for this research in order to map 'internal dynamics' with 'external dynamics'. Consequently, constructing the McDonalds' and Starbucks' Business Ideas with the contribution of workforce from these firms, has helped the writers, based on the expert knowledge gained in the discussions and the subsequent analysis, to categorize the current strengths and weaknesses of the selected organizations in a realistic manner and to suggest ways to achieve efficient and effective use of resources by these companies that may lead to operational improvements. Such enhancements could in turn open the way for a sustainable competitive advantage under conditions of change. These recommendations, based on the analysis, are included in the conclusion of this work.

## The Research Gap

To enable the construction of the Business Idea diagrams for the chosen companies, the Industry Life Cycle, Porter's 5 forces analysis, the Value Chain concept, and the Generic Strategies framework, are employed. However, although acumens of these tools have been used expensively in the construction of Business Ideas in previous studies (see van der Heijden et al. 2002, Santos et al. 2009), it is unsure if the insights of the above-mentioned analyses are fully applicable in the specific context, that is, if they can capture a realistic picture of 'internal dynamics' for McDonalds and Starbucks in their Business Ideas. This because, research suggests that some of these tools may be more applicable than others in specific situations, and some, like 5 forces analysis and the generic strategies, may not contribute at all in certain conditions given the unpredictability of the future (van der Heijden et al. 2005, Schwartz 1991). This being said, it seems to be a research gap as per the use and outcomes of these models in different situations. Despite the fact that these models are well tested in conditions of certainty (see Porter 1990, El-Namaki 2016), little is being said of whether or not they can work under situations of uncertainty and the total unpredictability of the future for the specific market – namely the fast-food industry (Ali and Ahmed 2023). Given this issue, this paper aims to shorten this gap. The authors of this work expect that the reflexions of discussing these models in relation to the Business Ideas of the two firms will help to test the models for validity and applicability in the specific setting and whether the models can contribute to linking 'internal dynamics' with 'external dynamics' which seems to be a requirement for sustaining any competitive advantage (see Schwab 2017, Sarpong and Amankwah-Amoah 2016, Prahalad and Hamel 1990, Schwartz 1991). The results of the analysis will form the basis for the recommendations at the end of the paper in addition to the insights of the Business Ideas.

## Identifying a Growth Industry

The industry life cycle model is a handy tool for evaluating the effects of market growth on competitive forces (Hill and Jones 2001). As per this model, a market can be acknowledged as a growth industry as soon as demand for a particular good arises (Higgins 1989). In the fast-food industry, the baby boom populace hump tied with longer average life spans globally has been leading market growth (Reuters business 2002). A mature industry, where firms use their products as 'cash caws' to milk the profits, is one that has reached the peak of the industry life cycle model (Porter 1980). For the purpose of this paper McDonalds seems to take such an advantage by being mature in the fast-food industry. The firm has apparently gotten to what is called as the maturity stage and therefore it seems to revel in the profits that come together with that label. As expressed in the focus group discussions, the strategies that the business follows are economies of scale and the market know-how they have in the industry, which allows them to reduce the price of their commodities. These results are also supported in the works of more researchers (see Dess et al. 2012, Khandelwal 2020). When it comes to Starbucks now, the company has fully grasped its maturity stage in North America, Australasia and Europe, and it is growing fast in the Middle East and Asia (Fromm 2014, Sanburn 2012). The in-depth interviews conducted with McDonalds and Starbucks personnel also confirmed this point. The would-be competitive advantages of McDonalds and Starbucks is discussed later in this paper.

However, for the moment the authors need to emphasize the fact that consumers of all ages today are becoming more discerning and active participants in their own health prospects and there is a tendency to turn away from a product if it lacks transparency (Panasara and Asnani 2022). As per a recent Forbes review, transparency is the principal trend driving change in the food and beverages industry today. Customers wish to know and apprehend what ingredients exist in the products they buy, which is why buyers are finding so many novel foods with tinier ingredient lists that a person can utter. Today consumers are looking for plainness together with better quality when it comes to food. In the previous years, it was occasional to flip to the back of a good on shelf and read it prior to buying the product. On the contrary the majority of buyers now are taking a look at the back of the package before taking the product to the cashier (Olayanju 2019). All these factors are relevant to consumer perceptions toward McDonalds' and Starbucks' products as they are parts of 'external dynamics' that the companies have to take in consideration and map them with 'internal dynamics' when planning for the future and are discussed below in the analysis of the two brands.

## The Nature and Importance of Main Barriers

In this paper the authors question Porter's 5 forces model as being the proper method to investigate competition in the fast-food industry. For anyone who has studied the model, it is long ago suggested that its use enables companies to identify opportunities and threats in a company's microenvironment and act accordingly (Porter 1990). Porter's 5 forces model takes account of five competitive forces, the 'Rivalry among Existing Competitors', the 'Threat of Substitute Products and Services', the 'Threat of new Entrants', the 'Bargaining Power of Suppliers', and the 'Bargaining Power of Buyers' (Porter 1990). Rivalry, the first of Porter's 5 forces gazes at the sum and power of a company's rivals and tries to answer classical questions such as how many competitors are there in this firm's market or who are these opponents, and how do the features of their goods match with this company's products or services (Goyal 2020). For example, in a market where competition is fierce, research has found that firms appeal to buyers by antagonistically dropping prices and carrying high-impact promotional campaigns (Liu 2022). On the contrary, when competition is insignificant, and no other company produces what a given business produces, then this firm is likely to have great competitor power, as well as strong revenues (Campbell et al. 1995). However, not much is said in the model how ‘external dynamics’, - especially the unpredictable elements -, that we introduced above, such as a flood or the degree and intensity of climate change may affect the rivalry and what a particular firm should do to survive, in our case McDonalds and Starbucks.

Similarly, the ‘Threat of Substitute Products and Services” speaks of the possibility that a given company’s clients may find another way of getting the service or product, or both, that this business offers (Liu 2022). For example, it is found, that if a business sells an inimitable software service that mechanizes an essential process, folks may substitute the business’s service by performing the process manually or by subcontracting (McGee and Thomas 1992). Yet, the model does not say what happens in the case that the substitute product or service to which everybody has run fails to deliver again due to ‘external dynamics’, that is pre-determined or unpredictable elements, such as, for example, a sudden unavailability of a resource that is essential to make the substitute operational like grain shortage at present or a money market crack like the one in 2008.

Likewise, the ‘Threat of New Entrants’ determines how much the existing rivalry is threatened by companies trying to enter a specific market. Previous research has shown that if this is not costly and does not require a lot of effort to enter into the industry and compete successfully, or if the technologies which a given company uses are not supported enough, then new entrants can swiftly enter in this industry and challenge this company’s position in that market (Goyal 2020). On the other hand, if a business has sturdy and tough barriers to entry, then this business may reserve a strong place in the market and take good benefit of it (Fuld 1987). Nevertheless, not much is said what happens if barriers to entry are impossible again due to ‘external dynamics,’ such as a new technology like artificial intelligence (AI) that threatens to change entirely the way humans communicate with a machine, or advances in, for example, pharma research that make the products of the existing rivalry obsolete and how this issue may be addressed by a specific firm.

Similarly, the classical strategic management literature tells us that the ‘Bargaining Power of Suppliers’ depends on how easy it is for a firm’s contractors to raise their prices, and asked the following questions: How many likely suppliers is a firm having? How exclusive are the goods that a firm is offering? And how costly could be to shift from one supplier to a different supplier? (see Porter 1990). As per past research, the more suppliers a company has to select from, the easier it will be to shift to a low-cost substitute (Goyal 2020). On the contrary, the fewer contractors a business has and the more its business depends on them for assistance, the sturdier the supplier’s place and their capability to make the business pay more is (Liu 2022). Research has found that such a change may have an effect on a firm’s profitability, for instance, if the firm is driven to make costlier agreements or is forced by circumstances to leave the market (Ali and Ahmed 2023). Nonetheless, once more the model does not tell us precisely what happens in case supply becomes zero due to an embargo or a natural disaster, such as an earthquake, that is, again through changes in ‘external dynamics’ and how can the competition deal with the issue.

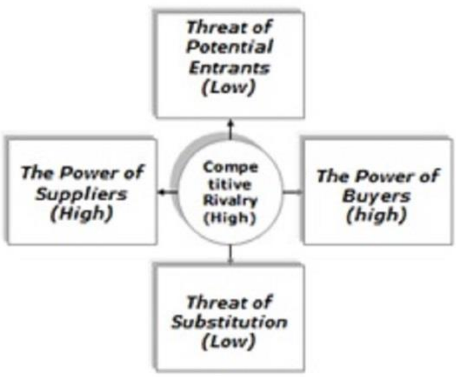
In a similar way, traditionally, if the number of buyers is less contrasted to a large number of existing competitors in a market, then buyers have what is known as 'buyer power' (Fuld 1987). This means that, habitually, a given company's customers may find it easy to shift to new, inexpensive rivals, which can eventually drop down prices and a firm's profitability (McNamee 1990). However, the model again does not seem to consider 'external dynamics', such as a sudden rise in interest rates which may affect consumer purchasing power. This being said, Porter's 5 forces model is a useful tool to help the authors of this paper draw conclusions regarding the competition in the fast-food market in cases of market stability, but we have to keep in mind that it may not work in cases of unpredictable changes and future uncertainty as may be the case with the fast-food industry in different parts of the world.

To take a closer look in the fast-food industry now, despite sturdy demand in the market, the marketplace seems to remain highly antagonistic (Ali and Ahmed 2023). Research also shows that the world of fast-food business has turned out to be competitive where there is a plethora of fast-food chains around (i.e., McDonalds, KFC, Starbucks, Costa, Pizza Hut, Subway, Burger King, Domino, etc.) as well as smaller independent fast-food outlets, expanding into new regions every day, advent of many new companies, fresh menus, and new kinds of gastronomies (Reshi et al. 2023). This is also confirmed in the focus group discussions with McDonalds and Starbucks personnel. Moreover, few features seem to contribute to the prosperity of fast-food restaurants and make them known globally as a preferred choice of dining. Those elements are local adaptation, customer-added values, innovative integrated marketing mix, quality services, and dining environment (see Nezakati et al. 2011) and these requirements were identified in the focus group sessions too. In fact, by looking at the expansion of this industry globally, one can see that despite local customer preferences, the rivalry maintains high (Ali and Ahmed 2023). This means that in spite of the ease for a new entrant to get in a local market for some time, in the international arena the main competitors are given – a number of them are already mentioned above, McDonalds and Starbucks are among them- and it may take years for a new entrant to expand in several countries or regions. This seemingly makes the threat of New Entrants low, which also confirmed with the representatives of the two companies in the in-depth interviews. When it comes to buyers now, the opposite thing appears to happen. Buyers, apparently, have tremendous power as they have many alternatives offering the choice of different cuisines and diverse tastes, such as American, Indian, Thai, Greek, Chinese, Arabic, Italian, Mexican, etc. (Etrata et al. 2023). And even in their choices of local cuisines, customers have more alternatives and more choices. This seems to make the power of buyers high in the fast-food market sectors both globally and locally (Nezakati 2003).

In contrast to the power of buyers, the threat of substitutes, as with new entrants, seems to be on the low side at both global and local markets as fast-food operators have timely customized their products as per local requirements and customs winning thus customers from more traditional restaurant shops, which could otherwise be substitutes (Ali and Ahmed 2023). In India for example, as stressed both in research (see Savant 2015) and in the focus group sessions, there are several foods which are banned from consumption in many areas of the country as a result of religious, social, and cultural associations. Food and drink substances such as beef and alcohol are constrained from consumption by most Indians whereas at the same time wholly vegetarian towns exist like Amritsar and Rishikesh. Likewise, certain people who are following 'ahimsa' side-step from eating non-veg foodstuff. Moreover, a few others avoid onion and garlic in their dishes. All these practices created an opportunity for fast-food operators in the Indian market to customize their food offerings as per local dietary culture and preferences winning thus customers who otherwise would prefer to dine in a traditional restaurant or at home (Chitnis 2019). Moreover, similar practices are adopted by fast-food shops in other areas of the world. For example, in Israel and parts of the US where the Jewish population is dominant such as the New York Metropolitan Area and New Jersey, all of the McDonald's shops have "kosher" written on them, to indicate that they only serve hamburgers there and not cheeseburgers as this goes against Jewish 'Kosher' dietary laws – for example as per 'kosher" laws a person cannot consume dairy products together with meat and one need to wait for at least 30 minutes to do so (Hirschman 1981).

When it comes to the "Bargaining Power of Suppliers" now, this was traditionally low as most of the fast-food chains had a choice of several different suppliers in a region and they had created their own supply chains (Ali and Ahmed 2023). However, at the time of writing this paper, this seems to be challenged due to grave economic/political factors (the Russian-Ukrainian war and the subsequent blockade to the supply of Ukrainian wheat, grains, and other products) - a change in 'external dynamics' - that are affecting the supply of wheat, grains, sunflower oils, and other food products globally and accordingly they cause a sharp rise in the price of commodities including food items (Ganeshan and Boone 2022). This last point was predominantly alarming for the participants of the focus group discussions. The above issues suggest that power seems to be concentrated to chief suppliers that have more access and stocks of food supplies than small peripheral players (Ganeshan and Boone 2022). The overall situation is depicted in Figure 1.

**Figure 1.** *5 Forces Analysis of the Fast-Food Industry*



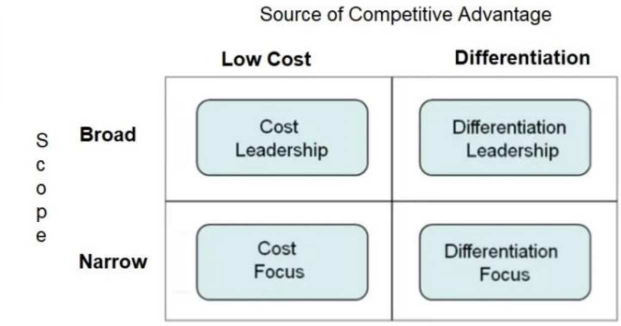

*Source:* Based on Porter (1979, p. 167).

This being said, it seems that the fast food industry is facing several challenges at present including fierce competition, diverse and changing dining habits, local cultures and changes in consumer preferences, rise in prices, supply shortages due to changes in 'external dynamics', and most of all the unpredictability of the future that makes any planning tremendously tough. Getting a sustainable competitive advantage in such an industry where unpredictable elements such as the degree and intensity of climate change, or the duration of the food supply shortage are at play and force fundamental changes in the markets, is a matter inviting the authors' further investigation below.

## The Relevance of Generic Strategies

Whether a company chooses to go with a cost leadership, differentiation or a focus strategy rests on market and buyer characteristics (Murray 1998). A focus strategy as defined as an approach in which a business chooses to operate in a niche market where it has more expertise and can be either a focus cost or a focus differentiation strategy (Porter 1979).

**Figure 2.** *Porter's Generic Strategies*




*Source:* Porter (1979), p. 181.

Figure 2 shows the four kinds of generic strategies being Cost Leadership, Differentiation, Focus Cost, and Focus Differentiation. In the Cost Leadership and Differentiation strategies the scope is broad whereas in the Focus Cost and Focus Differentiation strategies the scope is narrow (Porter 1985). However, the barriers between these strategies are not clearly defined and a company may jump from one kind of strategy to another as the market conditions change (Porter 1990). This is particularly useful for the present study, because seemingly, the second of the chosen organizations, Starbucks, had initially adopted a focus differentiation strategy concentrating in the coffee and beverages sector of the fast food industry (Seafold et al. 2012). However, in 2005, and as competition, including McDonalds, started serving gourmet items at lower prices, Starbucks changed to a broad scope differentiation strategy by offering a variety of differentiated products, such as pastries, deserts, and lunch items too (Adamy 2008). Therefore, this makes Starbucks a good choice to investigate further as it demonstrates a purely broad scope differentiation strategy. This is so because, seemingly, the market size and the buyer characteristics express only one part of the corporation's generic strategy. As Lim writes the firm's competences also define if a given strategy is expected to be suitable (Lim 1993).

The above points suggest that a company must take account of its own core competences, such as marketing and supply chain capabilities, financial strength, research and development etc., to apprehend if these strengths are capable of supporting a certain strategy (Hill 1983). To go a step further, more recent research shows that conventional strategic planning methods such as Porter's Generic Strategies may not deal well with the unpredictability of the future and cultivating unique strengths (or core competencies) today will pay off tomorrow by giving businesses the tools to survive an uncertain future (Rodriguez-Villalobos and Garcia Martinez 2018, Kaur et al. 2014, Milestad et al. 2014, Banos et al. 2015). This seems to support the purpose of this study, which is to find out how taking advantage of McDonald's and Starbucks core competences at present (if any), and working to develop such competences, may strengthen the possibility of sustaining a competitive advantage in the years to come in the middle of constant change and the unpredictability of the future. The authors proceed to discuss this below.

## Fast Food Industry and Cost Leadership Strategy (The Case of McDonalds)

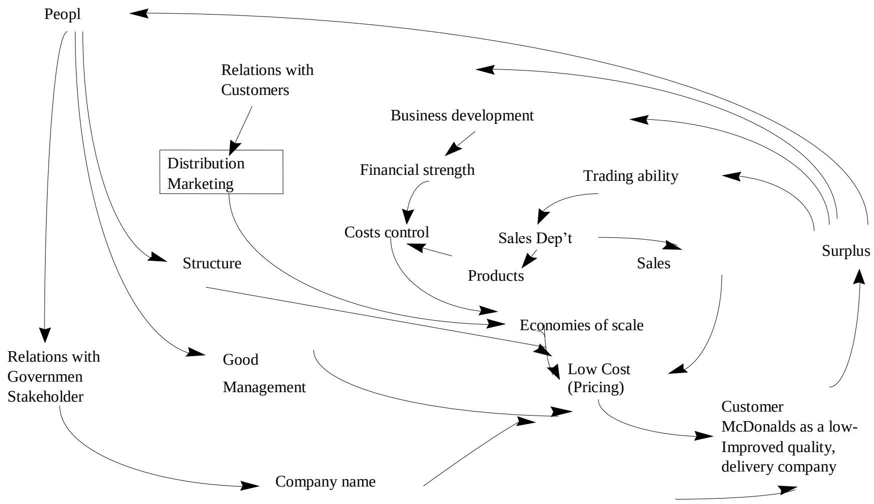
In a cost leadership strategy, the name of the game is keeping costs as low as possible, in effect, being the lowermost cost manufacturer in the market (Greckhamer and Gur 2019). Being a cost leader offers a business a competitive advantage over its competitors as the organization can make its goods available at a lower price (Armstrong 2022). That is to say, a low cost position works as a defence alongside rivals, because before competitors start a price war they have to consider that the company that offers the lowest price will still be in the best position to survive (Porter 1985). However, for a business to follow a cost leadership strategy, it has to be in a market in which economies of scale exist (Lim 1993). Economies of scale are defined as a reduction in the average costs of production as soon as there is a rise in the scale of production of a business. It refers to a condition when the number of production floods and the cost per unit drops (Bello et al. 2004). Economies of scale happen when there is a reduction of costs given a relative rise in production. This permits a company to offer its goods at more competitive prices and to seize a substantial market share (Armstrong 2022).

To understand this point better, one has to look at McDonalds that is focusing on every corner of the fast-food industry, having realized a bigger scale of operations and henceforth dropping the price tag in this market (Rodriguez-Villalobos and Garcia-Martinez 2018). This being said, it seems that McDonalds' low cost product strategy and several offerings make it a good choice for individuals that are on a budget, and for families and students. By selling an extensive array of products at highly reasonable charges, the brand has achieved to preserve an extensive buyer base that extents to diverse age groups and socio-economic background (Rodriguez-Villalobos and Garcia-Martinez 2018). Again this makes McDonalds an interesting case to analyse in this paper as it exemplifies a business that seemingly has adopted a broad scope cost leadership strategy.

However, whether or not this strategy may provide McDonalds a sustainable competitive advantage it is still a question, and the authors deal with this issue below. Furthermore, a company's skill to be a cost leader also rests on its ability to bring down costs through innovation (Young et al. 1989). In some organisations, this may be successful international operations due to which the research and development costs can be eliminated (Jones et al. 2012). Again, looking at McDonalds, the company's success till now seemed to hinge on its constant capability to increase production and drop down prices globally as well as diversifying product offerings and marginally improving product quality (Business Standard 2015). This point is also raised by McDonalds' Marketing and Sales managers during the focus group discussions.

How the above things happen is illustrated in the McDonalds' business idea diagram in Figure 3 that the authors of this paper have constructed with the contribution of McDonalds' personnel in the focus group workshops. A Business Idea diagram is a good method to illustrate how a company can use its resources and people to generate its core competence(s) that will help it effectively to get a competitive advantage in its market or markets (Prahalad and Hamel 1990). As illustrated in the McDonalds' Business Idea diagram below, the firm uses its surplus productively to invest in opening more shops globally, maintaining a well-supported supply chain management system and good relations with authorities everywhere, and keeping cost low due to economies of scale. These strengths coupled with excellent distribution and marketing capabilities, - which seems to be the core competence for McDonalds at present, - support the company's cost leadership strategy and permit it to retain its profits making it a low cost, improved quality, and fast delivery restaurant to its clients. McDonalds' core competence of '*Distribution / Marketing* is placed inside the rectangle in the Business Idea diagram below. The above factors seemingly contribute to surplus which the business invests to retain its competencies.

**Figure 3.** *The McDonalds Business Idea*



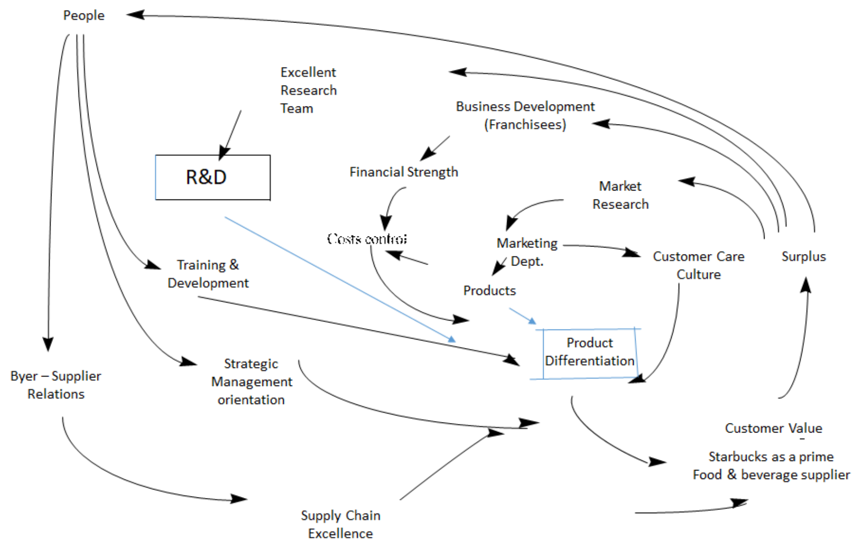

What the reader sees in the McDonalds' Business Idea diagram above is a virtuous circle that goes from surplus to resources, competencies, strategies and operations, and competitive advantage to link again to surplus though which the company seemingly uses its resources again to reinforce the process Still, as expressed during the focus group discussions, the above does not seem to guarantee that McDonalds will keep having a competitive advantage for ever, as there are other significant issues that also come into play, such as managing critical activities, for example research and development, supply chain, and innovation. This requires McDonalds to master a capability to sense the periphery to learn and react from that ankle and to learn to unlearn and to see things in a different way (see: Saxena 2016, Prahalad and Hamel 1990). Unlearning is vital for the reason that the ability to make new product groups or produce foremost chances in the market rests on seeing new patterns in the market (Brown 2004). To continue with our example, McDonalds then should, seemingly, have been more perceptive in its development of new and country/region customized offerings to make sure that all the supporting activities, mentioned above in its Business Idea diagram, work to achieving the same goal. This does not seem to be the case in several markets particularly in South Asia, Eastern Europe, and South America where McDonalds experiences loses (SEOAves 2022). But in the rest of the marketplaces too, due to supply chain interruptions, dissatisfied franchisees, intense competition (i.e., Subway, Burger King etc.), unbalanced meals, employee dissatisfaction, and unhealthy food image (see SEOAves 2022) - although the participants in the focus group discussions disagreed as to the intensity of these developments with the exception of unhealthy food image – McDonalds faces operational complications. Given these likely fallouts, this paper suggests that the firm needs to pay attention in retaining its *distribution / marketing* competence and try to improve its product image as well as retain its economies of scale, and turn them too to distinctive competencies. Otherwise, the authors of this work maintain that McDonalds, will, apparently, continue to deteriorate in customer choices and employee dissatisfaction, losing business, partners, and markets globally. This because a firm must be sure that its clients are highly price sensitive to the degree that they are eager to sacrifice a high degree of differentiation; if not, a cost leadership strategy is ineffective (Dierickx and Cool 2000). And, as this work has already stressed above, 'transparency' (which is the case of McDonalds seems to be specifically related to 'unhealthy food image'), when it comes to product offerings is becoming more and more important for consumers in our times.

**Fast Food Industry and Differentiation Strategy (The Case of Starbucks)**

In a differentiation strategy, a company's product or service has some characteristic observed by clients to be remarkable. This unique feature is what sets apart the product or service from rival goods (Porter 1990). Of course, offering a well-made high quality product is the outcome of excellent research and development. Even though the cost of this can be high, profits are believed to be higher (Hall and Andriani 2022). To apprehend this better, consider Starbucks, one of the top gourmet fast food businesses in the market, which seemingly embraces product differentiation as its chief strategy. As Colt writes the differentiation strategy of managing to be a finest quality and exceptional coffee serving chain, has permitted Starbucks to attain a constant competitive advantage (Colt 2022). Using its plentiful research and development skills, allowed Starbucks to realize added uses for its current offerings or develop new tastes that denote considerable Research and Development (R&D) capabilities.

This being said, the authors of this paper deem that Starbucks' policy seems to have been constructed around two chief props: customer experience and quality. The company has amplified the apparent value of its product name by offering a seemingly inimitable, constant "Starbucks experience." (Manghat 2022). Consequently, clients are eager to pay a higher price for a mug of Starbucks coffee. Now, whether or not this policy has the potential to provide any future benefits to Starbucks in the form of a sustainable competitive advantage, it is interesting to investigate in the construction of its Business Idea below. Starbucks' Business Idea is, as with McDonalds' previously, drawn during the focus group discussions with the help of Starbucks' personnel. This business idea is illustrated in Figure 4. Based on its two core competences of 'Product Differentiation' and 'R&D' (competences are placed inside a rectangle in the business idea diagram), Starbucks seems to be able to obtain a competitive advantage through a product differentiation strategy. The surplus is used to further support its competences and other operations to grow resulting in more surplus making it thus a virtuous circle, as with the case of McDonalds before.

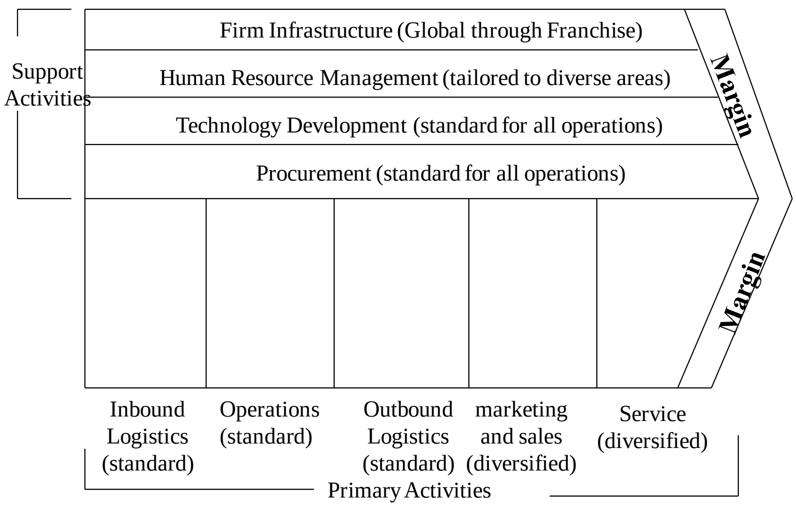
**Figure 4.** *The Starbucks Business Idea*




Nevertheless, there is a compromise concerning cost and differentiation and this seems to apply in the case of Starbucks too. Differentiated goods are habitually promoted at premium rates to deal with the added expenses of differentiation (Hill and Jones 2001). Together with high costs, the possible risk related to this strategy is that customers might not notice goods as differentiated (Andersen 2000). Therefore, the business should consider an incidental differentiation strategy due to its distinctive manner of including the client in the value chain (Ansoff 1988). The value chain model is an alternative way to assess company performance to the traditional internal assessment model of a firm that is looking on how each individual department functions. The model was developed by Michael E. Porter in the 90ies but it seems that its origin goes back to the systemic view of the firm that looks companies as valuable activities based on how well they transform their inputs to outputs (Jackson 2003). The original idea of the *'systemic'* model was developed by the ancient Greek philosopher and scientist Aristotle and is based on the scientific observation that '*the whole is greater than the sum of its parts (*τὸ γὰρ ὅλον πρότερον ἀναγκαῖον εἶναι τοῦ μέρους – Ancient Greek (see Aristotle: Politics 1, 136)*'*, which means that the sum of all of our activities produces something that is more than the outcome of each separate activity in itself, that can be how an organization achieves competitive advantage in the same way that a human being is more than the sum of its physical parts being a unique personality (Checkland 1981). This in Starbucks case is, presumably, product differentiation.

Porter's 'value chain' model is composed of nine activities that work together to buoyantly produce the excess value in an organization (Jackson 2000). Five of these activities are primary activities such as inbound logistics, operations, outbound logistics, marketing and sales, and customer service. Porter names them as primary because they are fundamental in order for a company to function (Porter 1985). The remaining four are support activities such as Firm infrastructure, Procurement, Human Resource Management, and Technology Development. The support activities are there to support all primary activities to function normally (Porter 1985). The outcome of all the value activities is called 'margin', and denotes the value added to the organization by carrying on successfully all the value activities (Jackson 2000). The idea apparently takes after Aristotle's definition of the *systemic* model (in other words, the organization can be looked on as a system composed of numerous different parts), that this paper dealt with above.

**Figure 5.** *The Starbucks Value Chain*




*Source:* Porter (1985), p. 98.

Figure 5 shows the suggestive value chain for Starbucks constructed by the authors of this paper taking into consideration the reflexions of Starbucks personnel in the in-depth interviews and the focus group discussions. When it comes to the performance of primary activities while Inbound Logistics, Operations, and Outbound Logistics are standard for all markets and deliver high quality organized services, Marketing and Sales, and Service are tailored to different markets as per local ethics, and social and dietary customs. This means that in order to sustain any competitive advantage, Starbucks will have to continually monitor local factors otherwise the product offers will vary in quality as well as Starbucks will face the challenge to cope with changes in demand in different countries and regions. This being the case, studies show that Starbucks has problems in marketing its product line successfully to young consumers in several parts of the world including South Asia, East Asia, and Europe resulting to reduced profitability (Linn 2007). For example, in India only, the firm had recounted a loss of INR 133.5 crore (16,337,169 US$) in Financial Year 2021 and INR 102.7 crore (12,567,224 US$) in Financial Year 2020 (Manghat 2022). When it comes to support activities now, while Technology Development and Procurement are standard and well organized for all markets, Firm Infrastructure and Human Resource Development depend on how are local facilities managed and how well franchisees train their personnel in different countries and areas as well as how satisfied such employees are with the mother company. Again, studies illustrate that Starbucks employees in several parts of the world including North America have been utterly dissatisfied with their jobs at Starbucks due to absence of promotion opportunities, long work hours, and relatively low salaries, which resulted in low performance, absenteeism, turnover, and a drop in productivity (Stelter 2008). Employee dissatisfaction with long-hours was conversed during the in-depth interviews too, where the participants had the choice to express themselves freely. Also the quality of facilities in Starbucks varies from place to place (Stelter 2008). The above issues suggest that any long term competitive advantage for Starbucks is questionable as this will depend upon how well the company will deal with improvements in the above areas and more core competences should be sought in the areas of HRM and Firm Infrastructure to sustain any would-be competitive advantage in the future.

## Perceived Threats

A competitive advantage only points to better than average performance if it is sustainable (Lim 1993). Businesses missing to sustain such a plus, the sooner or later will turn out to be susceptible to loses (see Lauritzen and Karafyllia 2019) as it is seen with Starbucks above. One can understand this by looking more closely at the strategies of McDonalds and Starbucks. Even though the policies of those firms centre on dissimilar viewpoints, the analysis above has shown that both are facing threats as their competitive advantage over rivals does not seem to be fully sustained. Although the business ideas of both companies show that both have some advantage over the competition by having developed a small number of strengths more core competences are required. Here one should try to explain why this may occur. First of all, both McDonalds and Starbucks share alike challenges such as an increase in population globally as well as bigger consumer awareness on product and/or service transparency. And both profit from releasing constraints on pointing to consumer advertising, which permits both of them to market food and beverages items as never before imagined (Kahndelwal 2020). For how long this will continue to happen, will depend upon learning to unlearn and adjust their product offerings,

Even so, as this study shows, it has been hard for either of these businesses to sustain a competitive advantage for a long time, and it is even more doubtful in the future given the total unpredictability of tomorrow. This means that imitations from rivals may be a major concern for both companies in the future. From the discussion above, it seems that both McDonalds and Starbucks cannot do much to escape it at least for the close future. In the case of McDonalds, it has been argued that the company cannot benefit for long from low cost as local competitors continually improve their offerings (Kahndelwal 2020). This was a matter raised in the in-depth interviews and argued in the focus groups discussions in this study too, and the participants expressed some worries at least for India. The participants were concerned of what happens if new entrants overcome the entry barriers due to product imitations as the Indian market is price sensitive, enter into the industry and steal McDonalds of their customers, presenting thus an additional threat to the company. For Starbucks now, as client's income and tastes may change over time, customers may not be willing to pay the premium price as easily as they do at the present time that may wipe out the firm's existing competitive advantage. Moreover, mapping 'internal dynamics' with 'external dynamics', is another issue that both these companies should consider, and to do so they both need to ponder on how changes in environmental variables in an uncertain future may challenge their would-be distinctive competences and shake their operations, and to plan accordingly.

## Conclusion

Competitive strategic choice can be stirred by two things. One is the market attractiveness, and the other is the comparative position of the rivals in the market (Jackson 2000). Normally, the fast-food market remained strong due to high barriers to competition (Manghat 2022). Nevertheless, the results of the above analyses show that, with reference to McDonalds and Starbucks, the fast-food market today seems to face increasing threats from all five competitive forces. Both suppliers and buyers are getting sturdier, and the grade of intra – industry competition is increasing as generic players increase and research output falls.

This paper aimed to close the research gap of whether or not the use and outcomes of Porter's Generic Strategies model apply to all situations and cases. By conducting in-depth interviews with McDonalds and Starbucks personnel and subsequent focus group discussions, and working with certain analyses such as the 'Business Idea' model, the value chain, and industry analysis, the authors of this paper were able to identify that to sustain competitive advantage in the specific businesses is not enough to embrace Porter's generic strategy model. The study of Starbucks and McDonalds 'business ideas' above show that developing a core competence philosophy and linking internal to external dynamics is an urgent requirement, otherwise both companies would continue to lose markets and customers. Moreover, as the above analysis shows, this may not work too without coordination of all the parts of the 'system' in these organizations. By the word 'system', as suggested by the analysis above, the authors mean that the individual business activities in both firms need to be fully integrated to form a 'whole', which will in turn guarantee linking activities to value outcomes (see Checkland and Scholes 1999). Additionally, as this study shows, the development of more competencies seems to govern whether Porter's generic strategies are expected to be successful in the particular cases. Starbucks' strategic focus on gourmet products and McDonalds' strategy of economies of scale, undoubtedly, have provided the companies with some advantages until now. However, the challenge for both is to sustain this advantage. The authors consider that it is vital for both the firms first to learn how to unlearn, and come up with fresh ideas, and then to work on creating new distinctive capabilities, and put them to work to address external macro-environmental challenges. This because in both of these firms the uncertainty of the future impends to take away any gains that they have enjoyed until today. By analogy, this study would suggest that this may occur to any business that fails to reflect on long term sustainability of competitive advantage, being in the fast-food, or in any other market. However, this is the issue of further research and the writers hope that the results of this study will encourage more research in the area. To conclude, as research has shown, several firms appear to pursue a generic strategy successfully (see El Namaki 2016, Hodgkinson and Wright 2002, Mackay and McKiernan 2006), but in the cases of McDonalds and Starbucks studied above, both the firms seem to have ended up by being stuck in the middle.

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