



By: *Tomorrow's Affairs Staff*

# Aggressive expansion of McDonald's and Starbucks - are the giants showing they are resistant to global economic and political upheavals?

---



At a time when it seemed that politics and global crises were causing damage to the company, McDonald's **announced** the most ambitious expansion plans in its history.

Last May, the company definitively left Russia because of its aggression against Ukraine, and closed more than 800 restaurants. McDonald's symbolised the West's victory over the collapsing Soviet Union when it opened its first restaurant in Moscow in 1990. However, the era ended 32 years later, shortly after the Russian military launched an invasion of Ukraine.

McDonald's has been the target of a boycott in several Muslim regions for the previous 2 months because its Israeli branch has been providing thousands of free meals to the Israeli army in its fight against Hamas.

### Western restaurant chains have been under consumer boycott in Indonesia

McDonald's, Starbucks and other Western restaurant chains have been under consumer boycott in Indonesia, a significant market and the most populous Muslim country in the world.

It followed a fatwa by the Indonesian Ulema Council, the leading clerical body, saying that it is "haram" (forbidden) to support "Israeli aggression against Palestine or parties that support Israel, directly or indirectly".

However, these severe geopolitical blows to the business of the global fast food and beverage giants apparently did not discourage them, much less force them to caution and restrict. They made the unprecedented decision to embark on an entirely new global expansion.

### Starbucks' doubled expansion

At the beginning of November, the new Starbucks boss, Laxman Narasimhan,

**presented** the strategy for the coming years to investors. Part of the strategy is for 17,000 new stores by the end of the decade.

The expansion from the current 38,000 to the planned 55,000 stores will be carried out primarily outside the US (as much as 75%).

This will be double the expansion compared to the previous one. Starbucks opened 9,000 stores in the last 5 years, of which 7,000 were outside the US.

### Starbucks plans to open a thousand additional stores every year until 2025, with a particular emphasis on China

Starbucks plans to open a thousand additional stores every year until 2025, with a particular emphasis on China, its second-largest market after the US.

The company suffered a big blow during China's long-term lockdown. At one point, as many as 1,800 out of 6,000 stores across the country were closed.

However, the coffee giant from Seattle is convinced that the Chinese economy has been recovering and is worth investing in until it reaches the goal of approximately 9,000 stores by the end of 2025.

### McDonald's unprecedented expansion

Similar plans for global expansion were presented last week by McDonald's executives, also in a meeting with investors. As they announced, there will be 10,000 more restaurants than there are currently by 2027—50,000 total—900 of which in the US.

This is a significant investment jump and expansion of the network of the world leader in fast-food restaurants, bearing in mind that in the past 10 years, it has opened 5,000 restaurants. That is, twice less than it plans to

open in the next 3 years.



*Both giants and others in their sector have been experiencing the growth wave of food and beverage delivery, which has continued to develop rapidly even after the COVID-19 pandemic*

One of the reasons for such a sudden and significant expansion of the American giants is the response to the increasing demand despite high inflation globally. Sales at McDonald's increased by 8%, and the company reported revenue of nearly \$7 billion in the third quarter.

Starbucks reported record earnings and a high estimate of 5-7% revenue growth, slightly less than the original 7-9%.

## The food delivery market on the rise

Both giants and others in their sector have been experiencing the **growth wave** of food and beverage delivery, which has continued to develop rapidly even after the COVID-19 pandemic and appears to be continuing.

Manu Steijaert, McDonald's chief customer officer, directly confirmed the connection between the high growth in demand for delivery and his company's decision to expand its restaurant network.

**If McDonald's successfully passes the test of a new chain of quick coffees and drinks called CosMc's, this might escalate into a real market war**

McDonald's plans to increase its capacity for delivery through its app and has calculated that by 2027, it will be able to service 30% of all orders.

The announced aggressive expansion of sales facilities of 2 large chains is already taking the form of a race to be global leader in the sector. If McDonald's successfully passes the test of a new chain of quick coffees and drinks called CosMc's, this might escalate into a real market war.

The company is eager to enter the market where Starbucks is the undisputed leader and challenge its superiority. McDonald's CEO Chris Kempczinski said it's a "\$100 billion category growing faster than the rest of the [informal eating-out segment] and with superior margins".

The race is already under way, and as customer-oriented companies, both are investing significantly in automation, marketing, and AI. Their plans indicate that the risks of reduced consumer purchasing power due to inflation are acceptable in the long run.