



CASE 1-2

McDonald's Expands Globally While Adjusting Its Local Recipe

McDonald's Corporation is a fast-food legend whose famous golden arches can be found in 118 different countries. The company is the undisputed leader in the quick-service restaurant (QSR) segment of the hospitality industry, with more than twice the system-wide revenues of Burger King. McDonald's built its reputation by promising and delivering three things to customers: inexpensive food with consistent taste regardless of location; quick service; and a clean, familiar environment.

The company was also a pioneer in the development of convenience-oriented features such as drive-through windows and indoor playgrounds for children. Today, thanks to memorable advertising and intensive promotion efforts, McDonald's is one of the world's most valuable brands. The golden arches are said to be the second most recognized symbol in the world, behind the Olympic rings. In the United States alone, McDonald's typically spends about twice as much on advertising as Burger King and Wendy's.

Today, however, the company faces competitive attacks from several directions. During the 1990s, a wide range of upscale food and beverage purveyors arrived on the scene. For example, consumers began flocking to Starbucks coffee bars where they spent freely on lattes and other coffee-based specialty drinks. The "fast-casual" segment of the industry that includes companies such as Panera Bread, Cusi, and Baja Fresh is attracting customers seeking higher-quality menu items in more comfortable surroundings. Meanwhile, Subway overtook McDonald's as the restaurant chain with the most outlets in the United States. Some industry observers suggested that, in terms of both food offerings and marketing, McDonald's was losing touch with modern American lifestyles.

Until recently, the picture appeared brighter outside the United States. Thanks to changing lifestyles around the globe, more people are embracing the Western-style fast-food culture. McDonald's responded to the opportunities by stepping up its rate of new unit

openings. McDonald's International is organized into three geographic regions: (1) Europe; (2) Asia/Pacific, Middle East, and Africa (APMEA); and (3) Other Countries. In 2005, the offices of the country heads for Europe and Asia were moved from headquarters to their respective regions; now, for example, the head of APMEA manages his business from Hong Kong. Commenting on the change, Ken Koziol, vice president of worldwide restaurant innovation, explained, "McDonald's was built on a strong foundation of a core menu that we took around the world but we need to make sure we are more locally relevant. Taste profiles and desires are changing."

Asia-Pacific

The Indian market appears to hold huge potential for McDonald's. In fall 1996, the company opened its first restaurants in New Delhi and Bombay. In Delhi, McDonald's competes with Nirula's, a quick-service restaurant chain with several dozen outlets; in addition, there are hundreds of smaller regional chains throughout India. The U.S.-based Subway chain opened its first Indian location in 2001; Pizza Hut, KFC, and Domino's Pizza have also entered the market. The Pizza Hut on Juhu Road in Bombay is housed in a three-story-tall building with large plate glass windows and central air conditioning. On most nights a long line of customers forms outside.

Indian demand for meals from the major food chains is growing at a double-digit rate; annual total sales exceed \$1 billion. With those trends in mind, McDonald's identifies strategic locations in areas with heavy pedestrian traffic, such as the shopping street in Bandra in the Bombay suburbs. Other restaurant locations include a site near a college in Vile Parle and another opposite the Andheri train station; in all, McDonald's India operated 208 locations at the end of 2010. Plans call for opening another 40 outlets in 2011. Prices are lower than in other countries; most sandwiches cost about 40 rupees (less than \$1). Drinks cost 15 rupees, and a packet of French fries is 25 rupees. A complete meal costs the equivalent of about \$2.

Because the Hindu religion prohibits eating beef, McDonald's developed the Chicken Maharaja Mac specifically for India. Despite protests from several Hindu nationalist groups, the first McDonald's attracted huge crowds to its site near the Victoria railway terminal; customers included many tourists from across India and from abroad as well as locals commuting to and from work. In short order, however, Hindu activists renewed their protests, this time accusing the company of using beef tallow in its cooking. Management responded by posting signs reading "No beef or beef products sold here," but the doubts raised by the controversy kept many potential customers away.

Since that time, McDonald's has worked steadily to prove that it is sensitive to Indian tastes and traditions. As is true throughout the world, McDonald's emphasizes that most of the food ingredients it uses—as much as 95 percent—are produced locally. In addition, to accommodate vegetarians, each restaurant has two separate food preparation areas. The "green" kitchen is devoted to vegetarian fare such as the spicy McAlloo Tikka potato burger, Pizza McPuff, and Paneer Salsa McWrap. Meat items are prepared on the red side. Even the mayonnaise is made without eggs. Some of the new menu items developed for India are being introduced in Europe and the United States.

China is currently home to the world's largest McDonald's; China is also the fastest-growing market in terms of number of new store openings. The first Chinese location opened in mid-1992 in central



CASE 1-1 CONTINUED (REFER TO PAGE 2)**The Global Marketplace: The Assignment**

Now that you have an overview of global marketing, it's time to test your knowledge of global current events. Some well-known companies and brands are listed in the left-hand column. The question is: In what country is the parent corporation located? Possible answers are shown in the right-hand column. Write the letter corresponding to the country of your choice in the space provided; each country can be used more than once. Answers follow.

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|----------------------------------|------------------|
| _____ 1. Firestone Tire & Rubber | a. Germany |
| _____ 2. Ray-Ban | b. France |
| _____ 3. Rolls-Royce | c. Japan |
| _____ 4. RCA | d. Great Britain |
| _____ 5. Budweiser | e. United States |
| _____ 6. Ben & Jerry's Homemade | f. Switzerland |
| _____ 7. Gerber | g. Italy |
| _____ 8. Miller Beer | h. Sweden |
| _____ 9. Rollerblade | i. Finland |
| _____ 10. Case New Holland | j. China |
| _____ 11. Weed Eater | k. Netherlands |
| _____ 12. Holiday Inn | l. Belgium |
| _____ 13. Wild Turkey bourbon | m. India |
| _____ 14. ThinkPad | n. Brazil |
| _____ 15. Wilson Sporting Goods | o. South Korea |
| _____ 16. Right Guard | |
| _____ 17. BFGoodrich | |
| _____ 18. Jaguar | |
| _____ 19. Burger King | |
| _____ 20. Jenny Craig | |
| _____ 21. The Body Shop | |
| _____ 22. Titleist | |
| _____ 23. Swift | |
| _____ 24. Gaggia | |
| _____ 25. Church's English shoes | |

Answers:

1. Japan (Bridgestone) 2. Italy (Luxottica SpA) 3. Germany (Volkswagen) 4. China (TTE) 5. Belgium (Anheuser-Busch InBev) 6. Great Britain/Netherlands (Unilever) 7. Switzerland (Nestlé) 8. Great Britain (SABMiller) 9. Italy (Benetton) 10. Italy (Fiat) 11. Sweden (AB Electrolux) 12. Great Britain (InterContinental Hotels Group PLC) 13. Italy (Campari) 14. China (Lenovo) 15. Finland (Amer Group) 16. Germany (Henkel) 17. France (Michelin) 18. India (Tata Motors) 19. Brazil (3G Capital) 20. Switzerland (Nestlé) 21. France (L'Oréal) 22. South Korea (Fila Korea) 23. Brazil (JBS) 24. Netherlands (Philips) 25. Italy (Prada Group)

Discussion Questions

1. Anheuser-Busch (A-B), which has been described as "an American icon," is now under the ownership of a company based in Belgium. Responding to reports that some consumers planned to boycott Budweiser products to protest the deal, one industry observer said, "Brand nationality is all about where it was born, and also the ingredients of that beer and how they make the beer. Basically, it doesn't matter who owns it. We are in a global world right now." Do you agree?
2. Anheuser-Busch has long enjoyed a reputation as a very desirable place to work. Executives were awarded well-appointed corporate suites and traveled on corporate jets; many had secretaries as well as executive assistants. When managers took commercial flights, they flew first class. Most employees received beer for free and could count on donations of beer and merchandise for community events. Tickets to Cardinals home games were also used as a marketing tool. A-B spent heavily on advertising and promotion; various advertising agencies produced about 100 new ads for A-B each year. Given these facts, what changes, if any, would you expect A-B's new owners to make? Why?
3. In 2009, Italy's Fiat acquired a 20 percent stake in Chrysler, another iconic American company. Are you familiar with Fiat? What do you think CEO Sergio Marchionne hopes to accomplish with this deal? How might Chrysler benefit from the alliance?
4. Ben & Jerry's Homemade is a quirky ice cream marketer based in Burlington, Vermont. Founders Ben Cohen and Jerry Greenfield are legendary for enlightened business practices that include a three-part mission statement: product mission, financial mission, and social mission. When the company was acquired by consumer products giant Unilever, some of the brand's loyal customers were alarmed. What do you think was the source of their concern?

Beijing, a few blocks from Tiananmen Square. Despite having a 20-year lease for the site, McDonald's found itself in the middle of a dispute between the central government and Beijing's city government. City officials decided to build a new \$1.2 billion commercial complex in the city center and demanded that McDonald's vacate the site. McDonald's was forced to abandon the location. Despite the turbulent start, McDonald's now has more than 1,000 restaurants in China. Plans call for opening 600 new locations by 2013. The restaurants purchase 95 percent of their supplies, including lettuce, from local sources.

"The tastes of the urban, upwardly mobile Indian are evolving, and more Indians are looking to eat out and experiment. The potential Indian customer base for a McDonald's or a Subway is larger than the size of entire developed countries."

Sapna Nayak, food analyst at Raobank India

In Asia and elsewhere, McDonald's protects itself from currency fluctuations by purchasing as much as possible from local suppliers. For example, the company's Singapore locations now buy chicken patties from Thailand rather than from the United States. However, French fries must still be imported from Australia or the United States. To help offset higher costs, McDonald's offers customers the choice of rice as a side dish at a lower price.

Western Europe

The golden arches are a familiar sight in Europe, particularly in France, Germany, and the United Kingdom. There is even a four-star Golden Arch hotel in Zurich. Overall, Europe contributes about 40 percent of both revenue and operating income, making it a key world region.

France's tradition of culinary excellence makes it a special case in Europe; dining options range from legendary three-star Michelin restaurants to humble neighborhood bistros. From the time McDonald's opened its first French outlet in 1972, policymakers and media commentators have voiced concerns about the impact of fast food on French culture. Even so, with nearly 1,000 outlets, France today represents McDonald's third-largest market in Europe.

However, controversy has kept the company in the public eye. For example, some French citizens objected when McDonald's became the official food of the World Cup finals that were held in France in 1998. In August 1999, a sheep farmer named Jose Bové led a protest against construction of the 851st French McDonald's near the village of Millau. The group used construction tools to dismantle the partially finished structure. Bové told the press that the group had singled out McDonald's because, in his words, it is a symbol of America, "the place where they not only promote globalization and industrially produced food but also unfairly penalize our peasants." In 2002, executives at McDonald's France even ran an ad in *Femme Actuelle* magazine suggesting that children should eat only one meal at McDonald's per week.

McDonald's French franchisees experience some of the same competitive pressures facing the U.S. units; there are also key differences. For example, local bistro operators have enjoyed great success selling fresh-baked baguettes filled with ham and brie, effectively neutralizing McDonald's advantage of fast service and low prices. In response, executives hired an architecture firm to develop new restaurant designs and reimagine the French operations.

A total of eight different themes were developed; many of the redesigned stores have hardwood floors and exposed brick walls. Signs are in muted colors rather than the chain's signature red and

yellow, and the golden arches are displayed more subtly. Overall, the restaurants don't look like McDonald's elsewhere. The first redesigned store is located on the Champs Elysées on a site previously occupied by a Burger King; called "Music," the restaurant provides diners with the opportunity to listen to music on iPods and watch music videos on TV monitors. In some locations, lime green Danish designer armchairs have replaced plastic seats. As McDonald's locations in France undergo style makeovers, some franchisees report sales increases of 10 to 20 percent. Encouraged by these results, McDonald's has embarked on an ambitious program to refurbish several thousand outlets in various countries.

Central and Eastern Europe

January 31, 2010, marked the 20th anniversary of McDonald's arrival in the Soviet Union. The first Moscow McDonald's was built on Pushkin Square, near a major metro station just a few blocks from the Kremlin. It has 700 indoor seats and another 200 outside. It boasts 800 employees and features a 70-foot counter with 27 cash registers, equivalent to 20 ordinary McDonald's rolled into one. For its 20th birthday celebration, the Pushkin Square location offered customers a "buy one, get one free" hamburger promotion; accordion-wielding musicians provided background music.

Khamzat Khazbulatov was selected to manage the first store; today, he is director of McDonald's operations for all of Russia. At present, there are 235 McDonald's restaurants in Russia, and the company employs more than 25,000 people. To ensure a steady supply of high-quality raw materials, the company built McComplex, a huge \$50 million processing facility on the outskirts of Moscow. McDonald's also worked closely with local farmers to boost yields and quality. Now the facility has been turned over to private companies that today provide 80 percent of the ingredients used in Russia. For example, Wimm-Bill-Dann supplies dairy products to McDonald's; in 2002, it became the first Russian company to be listed on the New York Stock Exchange. Overall, 100,000 people are employed by companies in McDonald's supply chain.

Ukraine and Belarus are among the other members of the Commonwealth of Independent States with newly opened restaurants. The first Ukrainian McDonald's opened in Kiev in 1997; by 2007, the chain had expanded to 57 locations in 16 cities. Plans call for up to 100 restaurants, for a total investment of \$120 million.

McDonald's has also set its sights on Central Europe, where plans call for hundreds of new restaurants to be opened in Croatia, Slovakia, Romania, and other countries. In 2010, McDonald's Czech Republic restaurants featured a special lineup of New York-themed sandwiches that were promoted with the iconic "I Heart NY" logo. Advertisements promised "Another burger each week"; the offerings included Wall Street Beef ("grilled beef, cheese, crispy bacon, fresh lettuce and onion with BBQ sauce on an oval bun topped with sesame seeds"); Broadway Chicken; SoHo Grande; Manhattan Grilled Chicken; and Brooklyn Classic.

"McDonald's comes off as uncool. If you want to be chic, you eat sushi. Indian food is even more cutting edge. McDonald's is like white bread."

Daniel, a 26-year-old architectural draftsman in San Francisco

Refocusing on the U.S. Market

Disappointing financial results led to a management shakeup in 2002, and Jim Cantalupo became CEO. Cantalupo was a retired vice chairman whose 28-year career at McDonald's included considerable international experience. He vowed to get the company back on

track by focusing on the basics, namely customer service, clean restaurants, and reliable food. Unhappy with the company's recent "Smile" advertising theme, Cantalupo took the extraordinary step of calling a summit meeting of senior creative personnel from 14 advertising agencies representing McDonald's 10 largest international markets. Foremost among them was New York-based DDB Worldwide, the lead agency on the McDonald's account that handles advertising in 34 countries, including Australia, the United States, and Germany. In addition, Leo Burnett is responsible for ads targeting children. McDonald's marketing and advertising managers from key countries were also summoned to the meeting at company headquarters in Oakbrook, Illinois.

As Larry Light, then-global chief marketing officer for McDonald's, noted:

Creative talent is a rare talent, and creative people don't belong to geographies, to Brazil or France or Australia. We're going to challenge our agencies to be more open-minded about sharing between geographies.

Charlie Bell, a former executive at McDonald's Europe who was promoted to chief operating officer, didn't mince words about the company's advertising. "For one of the world's best brands, we have missed the mark," he said before the summit meeting. In June 2002, the company announced that it had picked the phrase "i'm lovin' it" as its new global marketing theme; the copy was proposed by Heye & Partner, a DDB Worldwide unit located in Germany. Tragically, within a few months, both Cantalupo and Bell died unexpectedly.

Jim Skinner, the company's current chief executive officer, instituted a "Plan to Win" initiative to increase McDonald's momentum. The core idea was to make McDonald's "better, not just bigger." Skinner identified five main drivers of McDonald's: people, products, place, price, and promotion.

Even as McDonald's executives attempted to come to grips with the problems facing their company, various business experts were offering advice of their own. In the mid-1990s, one market analyst said, "McDonald's is similar to Coca-Cola 10 years ago. It's on the verge of becoming an international giant, with the United States as a major market, but overseas as the driving force." Adrian J. Slywotzky, author of *Value Migration*, noted, "McDonald's needs to move the question from 'How can we sell more hamburgers?' to 'What does our brand allow us to consider selling to our customers?'" Mark DiMassimo, chief executive of a New York-based company that specializes in brand advertising, called McDonald's "a large lost organization that is searching for a strategy." In his view, "The company must focus, focus, focus, and stand for one thing."

There is ample evidence that, 10 years after its implementation, the Plan to Win strategy has been a success. *Consumer Reports* lauded the company's efforts to upgrade its coffee program. Consumers have embraced "better-for-you" menu items such as salads and sandwiches. The company is also seeking ways to be more environmentally conscious by using less plastic packaging and recycling more. Denis Hennequin, the executive in charge of European operations, is pleased with the results of his reimagining campaign. He said, "I'm changing the story. We've got to be loyal to our roots, we have to be affordable, we have to be convenient . . . but we have to add new dimensions."

Despite the challenging economic environment, McDonald's total stock return for the 3-year period 2007 through 2009 was the highest among the 30 companies that comprise the Dow Jones Industrial

Average. The company's strong financial results have given it the resources to move forward with a remodeling initiative for stores in the United States. The price tag: A whopping \$1 billion. The upgrades are partly a response to the positive results from revamped European operations; the makeover also reflects an appreciation for retail design principles used by Apple, Starbucks, and other trendsetters. By 2015, most of McDonald's 14,000 U.S. stores will be updated.

McDonald's executives intend to create a modern, streamlined environment that will encourage customers to stay longer and spend more. Some of the changes are dramatic: Gone are the red roofs and splashes of neon yellow that many associate with iconic spokes-clown Ronald McDonald. The new color palette includes subtle shades of orange, yellow, and green. Also on tap: softer lighting and comfortable, stylish new furniture. As Jim Carras, a senior U.S. executive, noted, "McDonald's has to change with the times. And we have to do so faster than we ever have before."

Discussion Questions

1. Identify the key elements in McDonald's global marketing strategy. In particular, how does McDonald's approach the issue of standardization? Does McDonald's think global and act local? Does it also think local and act global?
2. Do you think government officials in developing countries such as Russia, China, and India welcome McDonald's? Do consumers in these countries welcome McDonald's? Why or why not?
3. The Plan to Win initiative is built around five factors that drive McDonald's business: people, products, place, price, and promotion. As a student of marketing, what can you say about these factors?
4. Is it realistic to expect that McDonald's—or any well-known company—can expand globally without occasionally making mistakes or generating controversy? Why do antiglobalization protesters around the world frequently target McDonald's?

Visit the Web Site

See www.mcdonalds.com
for a directory to country-specific sites.

Sources: Bruce Horovitz, "McDonald's Revamps Stores to Look More Upscale," *USA Today* (May 8, 2011), pp. 1B, 2B; Andrew E. Kramer, "Russia's Evolution, as Seen Through the Golden Arches," *The New York Times* (February 2, 2010), p. B3; Janet Adamy, "As Burgers Boom in Russia, McDonald's Touts Discipline," *The Wall Street Journal* (October 16, 2007), pp. A1, A17; Jenny Wiggins, "Burger, Fries, and a Shake-Up," *Financial Times* (January 27, 2007), p. 7; Steven Gray, "Beyond Burgers: McDonald's Menu Upgrade Boosts Meal Prices and Results," *The Wall Street Journal* (February 18–19, 2006), pp. A1, A7; Jeremy Grant, "Golden Arches Bridge Local Tastes," *Financial Times* (February 9, 2006), p. 10; Saritha Rai, "Tastes of India in U.S. Wrappers," *The New York Times* (April 29, 2003), pp. W1, W7; Bruce Horovitz, "It's Back to Basics for McDonald's," *USA Today* (May 21, 2003), pp. 1B, 2B; Sherri Day, "After Years at Top, McDonald's Strives to Regain Ground," *The New York Times* (March 3, 2003), pp. A1, A19; Sherri Day and Stuart Elliot, "At McDonald's, an Effort to Restore Lost Luster," *The New York Times* (April 8, 2003), pp. B1, B4; Shirley Leung and Suzanne Vranica, "Happy Meals Are No Longer Bringing Smiles at McDonald's," *The Wall Street Journal* (January 31, 2003), p. B1; Shirley Leung and Ron Lieber, "The New Menu Option at McDonald's: Plastic," *The Wall Street Journal* (November 26, 2002), pp. D1, D2; Shirley Leung, "McHaute Cuisine: Armchairs, TVs and Espresso—Is It McDonald's?" *The Wall Street Journal* (August 30, 2002), pp. A1, A6; Bruce Horovitz, "McDonald's Tries a New Recipe to Revive Sales," *USA Today* (July 10, 2001), pp. 1A, 2A; Geoff Winestock and Yaroslav Trofimov, "McDonald's Reassures Italians About Beef," *The Wall Street Journal* (January 16, 2001), pp. A3, A6.