

GOING INTERNATIONAL WITH MCDONALD'S

Who are McDonald's?

Mention the name McDonald's and you will find that nearly everyone has a reaction. This ground breaking, quick-service restaurant brand is seen by many as "the epitome of US cultural imperialism", an outstanding runaway marketing success, but is reviled by some because of its popularity and accused it of encouraging unhealthy eating lifestyles.¹

Acclaimed as one of the premier global brands² worth US\$31bn and ranked in the world, according to Interbrand³, McDonald's is the worlds largest food service company, proudly boasting over 32,000 restaurants in over 100 countries worldwide, serving more than a whopping 56m customers each day.⁴

Founded in the 1950's by Ray Kroc, a visionary milkshake salesperson, McDonald's has taken the American burger and fries meal concept to the global masses. In the late 1970's in south east England you had to drive some distance to find a McDonald's. Now they are ubiquitous, following us wherever we go into football stadiums, motorway rest areas, aeroplanes, trains and even to ski resorts. Put simply, McDonald's is a counter service, family restaurant phenomenon that has taken the world by storm.

So why has the global brand of McDonald's been so successful?

The McDonald's recipe for success at first glance seems obvious; quick service enabled by a limited menu, a focus on cleanliness, family friendly facilities and good value for money. The emergence of a cash rich, time poor lifestyle, shopping mall Mecca's and societal acceptance of a more casual approach to eating on the run (aptly named grazing) helped under wire the emergence of McDonald's and effectively the birth of the fast food industry as we know it today. Economic growth fuelled the purses and wallets of eager consumers, keen to feast upon the American dream food. Customer research undertaken by McDonald's in China highlights consumer preference because it is a strong Western brand, offering a taste of America. Local food such as rice or congee, the Chinese believe is better

¹ Murray, I. (2002) Ronald McDonald Feels the Pricks of his Conscience, Marketing Week, 12 September, 106.

² Aaker, D. (1991) Managing Brand Equity, New York: Free Press, 68

³ www.interbrand.com accessed 1 September 2009

⁴ <http://phx.corporate-ir.net/phoenix.zhtml?c=97876&p=irol-newsArticle&ID=1318975&highlight=> accessed 1 September 2009

eaten at home or in Chinese restaurants ⁵ This perhaps helps explain why the hamburger and fries, western style, has remained at McDonald's core.

Innovation in food preparation technology and service delivery provided a fast service format that customers appreciated. Snappy counter service surrounded with bright, self seating and self clearing areas helped McDonald's grab market share from both the traditional take-aways (e.g. fish and chip shops) and the table service operators (e.g. Wimpy), with waiter labour cost savings passed onto consumers through lower prices. Costs per customer were further reduced by driving substantial volumes of take-away custom, ensuring efficient use of assets and labour. McDonald's were also in the leading group of companies to introduce franchising in the global market place, augmenting organic restaurant growth by harnessing the management, cultural and entrepreneurial capabilities with the capital of local business people around the world. 2008 results⁶ show a continuing trend of revenue growth from franchise operations, which accounts for 80% of corporate revenues. This is particularly strong in the Asia Pacific, Middle East and Africa markets while owned and operated restaurants in the home US market sees limited growth. McDonald's continues to innovate its business by, for example, introducing specialist baristas at McCafe outlets providing a more adult oriented coffee bar experience that offers a cheaper alternative to Starbucks and Costa coffee shops⁷, and seeking to become the number one destination for chicken. McDonald's kiosks have also been introduced in India to serve floats, soft serves, apple crush and bubble gum⁸.

Big Mac conquers the world!

A Big Mac may be seen as a merely cheap way to fill up, a means to suppress your offspring's relentless nagging, quick and easy food, a good place to stop for a clean toilet stop or even just a safe place to eat on your own. One McDonald's observer in Asia states that the core product is not really the food but the experience of eating in a cheerful, air conditioned and child friendly atmosphere with clean toilets.⁹ Whatever the motivation for visiting McDonald's, a burger, fries and drink will not give much change from a fiver in UK, but what if you were lining up to place your order in Moscow, Beijing or Mumbai ? The Economist¹⁰, recognising the pervasiveness of the McDonald's brand, has created a Big

⁵ chinadaily.com.cn/bizchina/2008-09/08/content_7007412.htm accessed 1 September 2009

⁶ www.aboutmcdonalds.com accessed 1 September 2009

⁷ www.interbrand.com accessed 1 September 2009

⁸ <http://www.financialexpress.com/news/hardcastle-plans-new-mcdonalds-kiosks-southern-expansion/112945/> accessed 1 September 2009

⁹ China's Big Mac Attack. Watson, J. Foreign Affairs, May/Jun2000, Vol. 79 Issue 3, 120

¹⁰ Anonymous (2000) Big MacCurrencies, 29 April. www.economist.com

Mac Index using the concept of purchasing price parity to help derive an alternative exchange rate calculation, based on the real cost of like for like goods in different currencies. The burger is used as a pseudo-‘basket of goods’ and can highlight if a currency holds ‘fair’ market value. It is claimed to be a good exchange rate tracker over the longer term, having seen both burger prices tumble and currency values shift. Generally speaking, the cheapest burgers can be purchased in the emerging economies, where currencies tend to be undervalued and benefit from lower labour and other input costs. Low costs of production enabling inexpensive burgers. In the affluent economies, McDonald’s burgers may be seen as relatively cheap, average workers needing to work for 12 minutes in Toronto, Tokyo and Chicago¹¹ to earn the price of a Big Mac, but in developing countries, where a meal could represent five per cent of monthly disposable income, it is not uncommon to see parents abstaining whilst treating their child with an expensive McDonald’s meal. ¹² Analysis by UBS suggests that in cities such as Mexico City, Nairobi and Jakarta average workers would need to work for more than two hours to afford the same signature burger. ¹³

McDonald’s, who launched their first international operation in 1967 in Canada, did arguably start out in the globalisation rush ahead of the pack. (McDonald’s Canada is the only operation that has been allowed to alter the McDonald’s mark, it boasts a maple leaf above the golden arches) Next Europe beckoned, followed by Asia and South America. In the 1990’s Eastern Europe succumbed, surprisingly even some Arabic states opened their doors to the McDonald’s ‘global realization strategy’.¹⁴ Global conquest did not happen quickly or easily, however. The Canadian organization set up the first McDonald’s in the communist Soviet Union in 1990 after 14 years of negotiations. To ensure high-quality, fresh ingredients, farms were set up to supply the restaurants, and the city of Moscow struck innovative barter deals that saw the burger company manage real estate developments. Prepared to queue for hours in the bitter cold, many young Russians still remember the excitement of experiencing their first taste of America.

Eric Schlosser¹⁵, in *Fast Food Nation*, says ‘Fast food chains have become totems of Western economic development.’ Schlosser also explains that Ronald McDonald has led from the front, opening up new markets for foreign franchisors, supported by US foreign policy, which runs programmes at its embassies to help American franchisors find overseas

¹¹ http://www.economist.com/daily/chartgallery/displaystory.cfm?story_id=14288808 accessed 1 September 2009

¹² China's Big Mac Attack. Watson, J. *Foreign Affairs*, May/June 2000, Vol. 79 Issue 3, 120

¹³ http://www.economist.com/daily/chartgallery/displaystory.cfm?story_id=14288808 accessed 1 September 2009

¹⁴ Schlosser, E. (2002) *Fast Food Nation*, England: Penguin, Pg. 229

partners.

The McDonald's Corporation claims expertise franchising, marketing and training and a "proven ability"¹⁶ to operate in a variety of economic business and cultural conditions. It is intriguing, then, that McDonald's itself has not been able to diversify successfully into the global restaurant business beyond its flagship brand. Around the turn of the century the burger giant purchased a number of established branded restaurant formats that included Donatos Pizza, Boston Market, and Chipolte Mexican Grill but by 2008 had divested its financial interests in all three. In 2001 McDonald's purchased a third share of the UK sandwich chain Pret-A-Manger, a brand that prides itself with selling fresh food with no additives, which seemed to signal an intention to gain exposure in the healthier eating market.¹⁷ However, having gone to some lengths via a global repackaging process and point of sale marketing materials to present a healthier product image in its core restaurants, McDonald's sold its third share in Pret-A-Manger in 2008.¹⁸ A Boston Market official stated "McDonald's is really singularly focused on the Golden Arches"¹⁹

Truly global?

Many consumers have been conditioned to believe that McDonald's is a no surprises eating experience, and equate this to mean that all elements of the marketing mix would be the same everywhere. Not true! Cross any border and visit the nearest McDonald's and you will likely find a host of variations, from price to product, even in the presentation. In Uruguay the McHuevo boasts a fried egg, in Israel there are kosher Big Mac's (no cheese), spicy wings are found in China and in Germany there is a vegetable and cheese pastry and a ciabatta bun option. In parts of rice loving Asia, the traditional bread bun has been replaced with rice in the Kalubi beef offering. In India you will not find pork or beef but goat and lamb burgers and over half the menu is devoted to tasty vegetarian options. In Japan the menu is heavily tailored towards local tastes with ingredients such as cabbage and teriyaki sauce. Targeting women and healthy eaters McDonald's has launched a variety of salad options and lite bites for those with smaller appetites, those counting calories or the health conscious.²⁰ Corporate McDonald's encourages new product innovation in local

¹⁵ Schlosser, E. (2002) Fast Food Nation, England: Penguin, Pg. 229

¹⁶ Schlosser, E. (2002) Fast Food Nation, England: Penguin, Pg. 229

¹⁷ www.pret.com accessed 14 April 2006

¹⁸ <http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/2784755/Equity-firm-to-take-bite-of-Pret-a-Manger.html> & [pret.com](http://www.pret.com) accessed 1 September 2009

¹⁹ http://www.usatoday.com/money/industries/food/2007-08-06-boston-market_N.htm accessed 1 September 2009

²⁰ www.mcdonalds.com 2006 fact sheet, accessed 14 April 2006

markets stating 'locally relevant products complement our core menu and provide customers more reasons to visit.'²¹

Although many believe that McDonald's is the same everywhere, this is clearly a misconception. Historically, McDonald's country teams have had considerable autonomy when developing and marketing new product lines. Some multi-market approaches have been adopted, for example 200 UK restaurants were renovated within a pan-European design framework²² and the first global advertising campaign was rolled out in 2003²³ with the tag line 'I'm lovin' it' (translated directly as 'Ich liebe es' in German), which suggests that marketing cost savings are being sought and/or a more homogenous view of customers is being taken. Critics²⁴ have accused McDonald's of being slow off the blocks in responding to changing customer tastes, but there is a proven track record for localised product innovation from within the global arches. For example customised products such as Barbacoa Tejana in Latin America, M Burger in Europe and Ebi-Filet-O in Asia are offered. The corn cup,²⁵ which was first launched, in China, has also been adopted in other Asian markets, perhaps suggesting a more global orientation.

Being a leading, global, cultural icon has not made life easy for the all-American McDonald's corporation. Not only have they lost high profile court cases (Stella Liebeck won over \$2.8m in 1992 after scalding herself with hot coffee²⁶, hence the 'caution hot' messages on drinks packaging) but they are also targeted by environmentalists, terrorists, the obese lobbyists. Sadly, in 2004 the high profile heart attack of Chairman and Chief Executive Jim Cantalupo at a McDonald's convention helped put 'high-fat burgers and fries menu under the microscope again.'²⁷ Robinson et al²⁸ suggest that McDonald's will not be held accountable in court for diet inflicted bad health, but never-the-less the golden arches are embracing a number of initiatives aimed at deflecting the unhealthy food label. McDonald's was applauded for its considered response²⁹ to the impactful film 'Super Size Me' by Morgan Spurlock, an American journalist who ate a 5,000 calorie per day, McDonald's only diet for a month to examine the impact it had on his health. It leads the laggard quick service industry on the health agenda, for example, by pioneering the introduction of nutritional information

²¹ www.mcdonalds.com 2006 fact sheet, accessed 14 April 2006

²² All change for fast food giant. Balmond, S. Design Week, 2/16/2006, Vol. 21 Issue 7, 9

²³ www.mcdonalds.com The first fifty years, accessed 14 April 2006

²⁴ Warren, M. The Daily Telegraph, Saturday 7 December 2002, 21

²⁵ www.chinadaily.com.cn/bizchina/2008-09/08/content_7007412.htm accessed 1 September 2009

²⁶ Anonymous, FHM, March 2002, 104

²⁷ Wigmore, B. (2004) Daily Mail, Tuesday 20 April, 24

²⁸ Combating Obesity in the Courts: Will Lawsuits Against McDonald's Work? Robinson, M.

Bloom, P. Lurie, N. Journal of Public Policy & Marketing, Fall 2005, Vol. 24 Issue 2, 299

²⁹ McDonald's: Super Size Me response ad Creative Review, May 2005, Vol. 25 Issue 5, 74.

on product wrappers,³⁰ promoting healthier, higher margin salad options³¹, scrapping the super sizing options and providing dietary information about McDonald's food on the web.³²

McDonald's has demonstrated impressive growth by expanding into markets across the globe, increasing restaurant penetration in existing markets, increasing the number of restaurants that are open 24 hours³³ and stretching its product range to include exciting breakfast, coffee (the first McCafe opened in 1991 in Sydney, Australia) and with the McFlurry, ice cream options, stretching the brand offering to fit all day long food consumption opportunities. Pugnacious corporate communications do not worry themselves with the threat of over-penetration causing cannibalisation nor the possibility that the McDonald's brand may be coming towards the twilight years of its effective life. Given a growing world population and assuming that everyone eats three meals a day, McDonald's believes that it enjoys less than one per cent ³⁴of all meal occasions, a share position that allows plenty of upside growth.

Competition is, however, aggressively snapping at the base of the golden arches. A new genre of restaurants seems to have emerged, dubbed 'fast casual'. These outlets offer consumers fresher, healthier, more varied food, in a more inviting ambience.³⁵ A McDonald's spokesperson, despite corporate fighting talk, has even been quoted as saying that 'one brand can't be all things to all people.'³⁶ One clear pretender is the highly successful franchise format, Subway, the made-to-order-sandwich chain. Thanks to an aggressive and successful approach to franchise by 2009 it had over 21,663 outlets in 81 countries³⁷ with more outlets in the USA, Canada and Australia than McDonald's.^{38 39} Chicken focused KFC has more than double the number of outlets than McDonald's in the high growth Chinese market.⁴⁰ Both companies look for expansion using alternative locations such as truck stops, sports arenas and micro sites that do not sit comfortably with the McDonald's concept. Is fast casual the new food retail business model that will displace the short-order, quick service pioneers ? Can McDonald's hold on to its world leading position by continuing

³⁰ McDonald's New Wrap. Gogoi, P. Business Week Online, 2/17/2006, 1

³¹ □ McDonald's Menu Upgrade Boosts Meal Prices and Results. Gray, S. Wall Street Journal Eastern Edition, 2/18/2006, Vol. 247 Issue 41

³² McDonald's offers diet info on the net. Bannister, L. Campaign (UK), 3/3/2006 Issue 9, 3

³³ www.mcdonalds.com accessed 14 April 2006

³⁴ www.mcdonalds.com 2002 investor fact sheet

³⁵ Anonymous (2002) Fast food in America, not so fast, Economist, 7 December, 89

³⁶ Hayes, J. (2002) Fast-food giants awaken amid flurry of competition, Nation's Restaurant News, 36(41), 58.

³⁷ www.subway.com accessed 1 September 2009

³⁸ Warren, M. (2002) Has the balloon burst for McDonald's ?, Daily Telegraph, 7 December, 21

³⁹ www.subway.com accessed 14 April 2006

⁴⁰ chinadaily.com.cn/bizchina/2008-09/08/content_7007412.htm accessed 1 September 2009

to innovate and develop its international offering ? Will the fast casuals, headed up by Subway, push McDonald's off the top spot ? Will the McDonald's Americana brand retain its allure as the global economic centre of gravity shifts eastwards ?

Questions

- 1. McDonald's allows its global brand offering to be tailored to better meet different consumer needs and wants. What are the advantages and disadvantages of this strategy? Are there examples of truly global brands that are never customised?**
- 2. What have been the key factors that have led to McDonald's global success?**
- 3. McDonald's has fuelled its impressive growth performance by operating a franchise system (in addition to wholly owned restaurants). What are the risks and potential benefits of choosing the franchising option?**
- 4. The McDonald's franchise has enabled many entrepreneurs around the world to build their own successful businesses. Would you think about setting up a McDonald's franchise? What would your critical success criteria be?**
- 5. In 2001 McDonald's purchased a share of the fast growing UK originating sandwich bar company Prêt-a-Manger, looking for a franchise vehicle that had perhaps a healthier customer perception. What strategy would you adopt to ensure a greater exposure for McDonald's to a growing trend towards healthier eating?**
- 6. Why did McDonald's reverse its diversification strategy?**

This case was prepared by Justin O'Brien, Teaching Fellow in the Management School at Royal Holloway, University of London, and Dr. Eleanor Hamilton, Associate Dean for Undergraduate Studies, Lancaster University Management School.