

PRINCIPLES OF MANAGEMENT.

WEEK 02.

McDONALD'S CASE STUDY

*International***Case**

McDonald's: Serving Fast Food around the World²¹

Ray Kroc opened the first McDonald's restaurant in 1955 in the United States. He offered a limited menu of high-quality, moderately priced food served fast in spotless surroundings. McDonald's QSC&V (quality, service, cleanliness, and value) was a hit. The chain expanded into every state in the nation. By 1983 it had more than 6,000 restaurants in the United States, and by 1995 it had more than 18,000 restaurants in 89 countries, located in six continents. In 1995 alone, the company built 2,400 restaurants, and by 2001 it had more than 29,000 restaurants in 121 countries.

In 1967, McDonald's opened its first restaurant outside the United States—in Canada. Since then, its international growth accelerated. In 1995, the "Big Six" countries that provided about 80 percent of the international operating income were Canada, Japan, Germany, Australia, France, and Britain. Yet fast food has barely touched many cultures. The opportunities for expanding the market are great, as 99 percent of the world population are not yet McDonald's customers. For example, in China, with a population of 1.2 billion people, there were only 62 McDonald's

restaurants in 1995. McDonald's vision is to be the major player in food services around the world.

In Europe, McDonald's maintains a small percentage of restaurant sales but commands a large share of the fast-food market. It took the company 14 years of planning before it opened a restaurant in Moscow in 1990. But the planning paid off. After the opening, people were standing in line for up to two hours for a hamburger. It has been said that McDonald's restaurant in Moscow attracts more visitors (on average 27,000 daily) than Lenin's mausoleum (about 9,000 people), which used to be *the* place to see. The Beijing opening in 1992 attracted some 40,000 people to the largest (28,000 square foot) McDonald's restaurant in China at a location where some 800,000 pedestrians pass by every day. Food is prepared in accordance with local laws. For example, the menus in Arab countries comply with Islamic food preparation laws. In 1995, McDonald's opened its first kosher restaurant in Jerusalem, where it does not serve dairy products. The taste for fast food, American style, is growing more rapidly abroad than at home. McDonald's international sales have been increasing by a large percentage every year. Every day, more than 33 million people eat at McDonald's around the world, with 18 million of them in the United States.

Prices vary considerably around the world, ranging from \$3.81 in Switzerland to \$0.78 in Argentina for the Big Mac, which costs in the United States \$2.49.* *The Economist* magazine even devised a Big Mac index to estimate whether a currency is over- or undervalued.²² For example, the \$1.27 Chinese Mac translates into an implied purchasing power parity of \$4.22. The inference is that the Chinese currency is undervalued. Here are other price comparisons for the \$2.49 U.S. Big Mac: Chile \$2.16, Euro area \$2.37, Hong Kong \$1.40, Japan \$2.01, Mexico \$2.37, Peru \$2.48, Singapore \$1.81, and Thailand \$1.27.

McDonald's traditional menu has been surprisingly successful. People with diverse dining habits have adopted burgers and fries wholeheartedly. Before McDonald's introduced the Japanese to french fries, potatoes were used in Japan only to make starch. The Germans thought hamburgers were people from the city of Hamburg. Now McDonald's also serves chicken, sausage, and salads. Another item, a very different product, is pizza. In Norway, McDonald's serves grilled salmon sandwich, in the Philippines pasta in a sauce with frankfurter bits, and in Uruguay hamburger with a poached egg. Any new venture is risky and can be either a very profitable addition or a costly experiment.

Despite the global operations, McDonald's stays in close contact with its customers, who want good taste, fast and friendly service, clean surroundings, and quality. To attain quality, so-called quality assurance centers are located in the United States, Europe, and Asia. In addition, training plays an important part in customer service. Besides day-to-day coaching, Hamburger universities in the United States, Germany, Britain, Japan, and Australia teach the necessary skills in 22 languages with the aim of providing 100 percent customer satisfaction. It is interesting that

* All dollar values are in U.S. dollars in this book.

McDonald's was one of the first restaurants in Europe to welcome families with children. Not only are children welcomed, but in many restaurants they are also entertained with crayons and paper, a playland, and the clown Ronald McDonald, who can speak 20 languages.

With generally aging populations, McDonald's takes aim at the adult market. With heavy advertising (it has been said that McDonald's will spend \$200 million to promote the new burger), the company introduced Arch Deluxe on a potato-flower bun with lettuce, onions, ketchup, tomato slices, American cheese, grainy mustard, and mayonnaise. Although McDonald's considers the over-50 adult burger a great success, a survey conducted five weeks after its introduction showed mixed results.

McDonald's golden arches promise the same basic menu and QSC&V in every restaurant. Its products, handling and cooking procedures, and kitchen layouts are standardized and strictly controlled. McDonald's revoked the first French franchise because the franchisee failed to meet its standards for fast service and cleanliness, even though their restaurants were highly profitable. This may have delayed its expansion in France.

McDonald's restaurants are run by local managers and crews. Owners and managers attend the Hamburger University near Chicago or in other places around the world to learn how to operate a McDonald's restaurant and maintain QSC&V. The main campus library and modern electronic classrooms (which include simultaneous translation systems) are the envy of many universities. When McDonald's opened in Moscow, a one-page advertisement resulted in 30,000 inquiries about the jobs; 4,000 people were interviewed and some 300 were hired. The pay is about 50 percent higher than the average Soviet salary.

McDonald's ensures consistent products by controlling every stage of the distribution. Regional distribution centers purchase products and distribute them to individual restaurants. The centers will buy from local suppliers if the suppliers can meet detailed specifications. McDonald's has had to make some concessions to available products. For example, it is difficult to introduce the Idaho potato in Europe because of special soil requirements.

McDonald's uses essentially the same competitive strategy in every country: be first in a market and establish its brand as rapidly as possible by advertising very heavily. New restaurants are opened with a bang. So many people attended the opening of one Tokyo restaurant that the police closed the street to vehicles. The strategy has helped McDonald's develop a strong market share in the fast-food market, even though its U.S. competitors and new local competitors quickly enter the market.

McDonald's advertising campaigns are based on local themes and reflect the different environments. In Japan, where burgers are a snack, McDonald's competes against confectioneries and new "fast sushi" restaurants. Many of the charitable causes McDonald's supports abroad have been recommended by its local restaurants.

McDonald's business structures take a variety of forms, with 66 percent of the restaurants being franchises. The development licenses are similar to franchising, but they do not require

McDonald's investment. Joint ventures are undertaken when understanding of the local environment is critically important. The McDonald's Corporation operates about 21 percent of the restaurants. McDonald's has been willing to relinquish the most control to its Far Eastern operations, where many restaurants are joint ventures with local entrepreneurs, who own 50 percent or more of the restaurant.

European and South American restaurants are generally company-operated or franchised (although there are many affiliates, or joint ventures, in France). Like the U.S. franchises, restaurants abroad are allowed to experiment with their menus. In Japan, hamburgers are smaller because they are considered a snack. The Quarter Pounder does not make much sense to people on a metric system, so it is called a Double Burger. Some German restaurants serve beer; some French restaurants serve wine. Some Far Eastern McDonald's restaurants offer oriental noodles. In Canada, the menu includes cheese, vegetables, pepperoni, and deluxe pizza. However, these new items must not disrupt the existing operation.

Despite its success, McDonald's faces tough competitors, such as Burger King, Wendy's, Kentucky Fried Chicken (KFC), and now also Pizza Hut. Moreover, fast food in reheatable containers is now also sold in supermarkets, delicatessens, convenience stores, and even gas stations. McDonald's has done very well, with a great percentage of profits coming now from international operations. For example, McDonald's dominates the Japanese market with 1,860 outlets (half the Japanese market) in 1996 compared to only 43 Burger King restaurants. However, the British food conglomerate Grand Metropolitan PLC, which owns Burger King, has an aggressive strategy for Asia. Although McDonald's has been in a very favorable competitive position, since 2001 the customer satisfaction level has been below that of its competitors Wendy's and Burger King. In China, KFC is more popular than McDonald's.²³ Some observers suggest that McDonald's has expanded too fast and that Burger King and Wendy's have tastier meals. It is Mr. Jack Greenberg's (McDonald's top manager) task to change things around.

Questions

1. What opportunities and threats did McDonald's face? How did it handle them? What alternatives could it have chosen?
2. Before McDonald's entered the European market, few people believed that fast food could be successful in Europe. Why do you think McDonald's succeeded? What strategies did it follow? How did these differ from its strategies in Asia?
3. What is McDonald's basic philosophy? How does it enforce this philosophy and adapt to different environments?
4. Should McDonald's expand its menu? If you say no, then why not? If you say yes, what kinds of products should it add?
5. Why is McDonald's successful in many countries around the world?