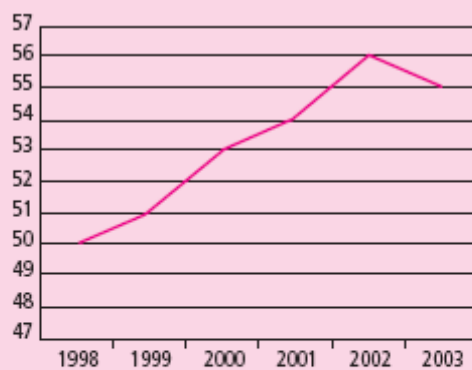


Image change at McDonalds

Case taken from The International Business Environment, second edition (Palgrave, 2006), by Janet Morrison

The Big Mac is perhaps the foremost symbol of the globalization of fast food – universal, but distinctively American. The Big Mac was invented in 1958 and for the next three decades McDonald's restaurants were concentrated in America. In 1985, only 22 per cent of the company's 8900 restaurants were outside America. By 1995, this percentage had leapt to 38 per cent. A major breakthrough was the establishment of its restaurants in Russia, which has been so successful that it inspired a book, *To Russia with Fries*, penned by the founder of the McDonald's Russian operation. McDonald's now has 30,000 restaurants in 120 countries. The company has prided itself on its adaptations of its products to suit local preferences, for example the 'Maharaja Mac' in India, which is made of mutton, as Hindus consider cows sacred and do not eat beef. Similarly, Chinese McDonald's offer rice cakes with mushroom and ginger, which are more suited to Chinese tastes. Growth in China has been slow, but the company is hoping to increase the number of outlets in the country by 50 per cent to 1000 by the time of the Beijing Olympics in 2008.

Following stagnant sales in the US and negative publicity linking eating at McDonald's with obesity, the company is now undergoing a rethink of its strategy, particularly in the US and Europe. As the figure shows, the proportion of the population that is overweight has grown rapidly. While lawsuits by two New York teenagers against the company failed to show that McDonald's caused their obesity, the negative publicity and possibility of further litigation have contributed to the rethink. A doctor who runs an obesity clinic in California has pointed to the cultural embeddedness of McDonald's, saying: 'People have no idea that if they eat a Big Mac, French fries and a soda, they've consumed nearly all their recommended calorie intake for the day' (Buckley, 12 July 2002). In 2005, the company launched new television advertisements in the US which show no burgers or fries, but, instead, feature a new image of Ronald McDonald playing soccer with children.



Note: Overweight is defined as having a BMI (body mass index) of 25 or more; BMI is defined as body weight in kilograms divided by height in metres squared (kg/m^2).

Percentage of the US population overweight

Source: 'Spoilt for choice: A survey of food', *The Economist*, 13–19 December 2003.

Changing eating habits both in the US and other markets have seen health-conscious customers turn away from burgers and fries, to the more interesting and healthier offerings of the new 'quick casual' restaurants, which are winning customers from the traditional fast-food establishments. New menus at McDonald's feature main course salads, fresh fruit and mineral water. This trend might explain the slight drop in the percentage of overweight people in the US in 2003. Along with the new menus, McDonald's is revamping its restaurants, to complete its image change. Restaurants in France have been in the forefront of the revamping, bringing in comfortable seating, improved decor, and even iPod digital music players along the walls. This new look McDonald's is being rolled out across Europe, to be extended worldwide. However, these changes will be brought in only gradually, as the company is now focusing less on numbers of new openings and more on improving quality and service, to encourage customers to keep coming back to its existing restaurants. While they opened some 1000 new restaurants in 2002, in 2003 they opened just 360. An important consideration for McDonald's executives is that 70 per cent of its restaurants are franchises, run by individual owner-operators. Franchisees will have to find most of the extra money to carry out any revamp, and even though they can expect a boost in sales after the revamp, they may have little capital to spend if sales have been flat for some years.

The company's diversification in the 1990s into 'partner brands', including the Chipotle Mexican Grill and Donato's Pizzerias, praised at the time as a growth strategy to complement its mature hamburger business, is now seen as perhaps having diverted management attention away from the basics of the company's main business. Donato's was sold back to its former owner in 2003, and expansion of the other brands scaled down. It has kept a minority stake in Pret A Manger, which prides itself on fresh, high-quality sandwiches.

The 'back-to-basics' strategy is not necessarily a guarantee of success for McDonald's. Historically, the company has been more successful at growing the business by opening new restaurants than it has by getting more customers to come to existing restaurants more often. Designing new menus which suit local tastes is crucial, as is the look and feel of the new 'deplasticized' interiors. Much depends, however, on franchisees' willingness to buy into the new image.

Sources: Buckley, N. 'Eyes on the fries: will new products, restaurant refits and a marketing overhaul sustain the Golden Arches?', *Financial Times*, 29 August 2003; Griffith, V. and Buckley, N. 'The scary fat end of the wedge', *Financial Times*, 12 July 2002; Buckley, N., 'Hamburger focus for McDonald's', *Financial Times*, 16 December 2003; 'Spoilt for choice: a survey of food', *The Economist*, 13–19 December, 2003; Nestle, M. (2002) *Food Politics* (Berkeley, CA: University of California Press); Ward, A., 'Chips are down for Ronald as anti-obesity lobby swells', *Financial Times*, 8 February 2005; Grant, J., 'McDonald's to open China "drive-through"', *Financial Times*, 12 May 2005.

Case questions

How does the new strategy at McDonald's depart from the company's traditional strategy?

Is the new image likely to succeed?

@ McDonald's website is at <http://www.mcdonalds.com>

@ Pret A Manger's website is at <http://www.pret.com>