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McDonald's: From Big Mac to P'tit Plaisir

Introduction^{1, 2, 3}

Jim Skinner, current CEO of McDonald's Corporation, sat in his office and reflected on his company's recent experiences. The firm had overcome many obstacles in its quest to be viewed as a valued business partner in each of its operating regions. The future looked bright.

Was it only a few short years ago that McDonald's had been the focus of demonstrations and sometimes violent protests? McDonald's had doggedly used its tried and true business practice of standardization to create a consistent customer experience throughout the world. This allowed the company to become the world's largest fast food restaurant business. Yet somehow this previously sound business strategy had unintentionally led to the company becoming an icon for much that was wrong with global business. Those were challenging times and required significant changes to rebuild the global brand of McDonald's.

As Skinner considered his company's situation the phone rang. It was Cindy Goody, Director of Nutrition for the company. Goody told Skinner about a troubling commercial she had just finished watching on US television. In the commercial the iconic Golden Arches appear shackled over the feet of a dead man with the caption 'I was lovin' it'. A hamburger is clutched in his hand, and a woman weeps over his body. Goody, knew this was exactly the type of thing she and Skinner thought they had defeated. The commercial, developed by the nonprofit group Physicians Committee for Responsible Medicine, was the latest in a series of attempts to blame fast food consumption for increasing rates of heart-disease and obesity. Frustrated but resolute, Goody knew the company was now committed to providing balanced menu choices for customers, and that many of its menu items were healthy while being reasonably priced. She felt confident in the company's new menu that reflected traditional American tastes but also incorporated foods from around the world. The new, more expansive menu now included everything from one-dollar burgers and snack wraps to moderately expensive salads, and was gaining appeal to an ever widening range of customers.

Goody had been instrumental in developing the healthier and more international menu over the past few years. Her work entailed traveling the world for menu ideas, infusing the menu with healthier items, and hiring a company Chef, Dan Coudreaut. Mr. Coudreaut, or Chef Dan as he was known in the company, was a graduate of the Culinary Institute of America and former head chef of the Four Seasons Resort in Dallas, Texas. Chef Dan held the title of Director of Culinary Innovation at McDonald's and supervised a staff of sixteen that evaluated as many as 1800 potential new menu ideas each year. Goody realized Chef Dan's operation had breathed valuable life into the old traditional burger and fries menu and had helped the company grow during the recession.

Goody and Skinner considered the company's recent performance. The new dollar menu was a success. The new salads and healthier options were appealing to a wider range of customers. Net income for September of 2010 was up a staggering 12% on a 5% increase in sales. McDonald's competitors, especially Wendy's and Burger King, were struggling with their menus and experiencing low growth – and both companies were dealing with the possibility of being acquired. With foreign demand for McDonald's at an all-time high, nearly 65% of McDonald's sales now came from overseas. McDonald's was rated by the Wall Street Journal as one of the top five companies in the Dow 30 with the largest overseas revenue.

Skinner told Goody that they would have to keep in close touch over the next few months. In a comforting tone he said, 'don't worry, we are on the right track.' This seemed to mollify Goody and they hung up, but in the back of his mind, Skinner started to mull things over. Was McDonald's current performance merely a natural response of increased demand for low-priced fast food during the slow economy? Should they continue to develop the menu with the multicultural approach to which they attributed their recent success, or go back to their roots of a simpler more standard set of options? Could the company keep its longstanding burger and fries menu and simultaneously be at the forefront of healthy eating? Should they even worry about health? How should the company continue to grow internationally? Was the business environment changing again?

Company History

McDonalds Brothers⁴

Brothers Mac and Dick McDonald opened their first restaurant in California in 1940. It was built during the car hop craze of the time, and attracted a limited market of teenagers. Plagued with the common problems of the car hop business; labor intensive work, high turnover, waitresses dating customers, silverware theft, and grounds strewn with litter, they decided to try a new strategy – self serve. Barbeque and other items were removed to simplify the menu and eliminate the need for silverware. An all male crew was hired; each trained to perform a single task – which was enabled by the new limited menu. It was in 1954 that their operation caught the attention of Ray Kroc, the man credited with founding McDonald's Corporation. Kroc was selling multi-mixers used for mixing multiple shakes at once. Due to the large volume each five spindle unit could process, Kroc seldom had repeat sales. After selling ten separate machines to

the McDonald's brothers, he went to San Bernardino to personally investigate. He immediately saw the potential of expansion and negotiated to become their franchising agent.

Ray Kroc⁴

The 1950's was an era marked by rapid growth of franchises. Kroc's multi-mixer business had exposed him to sizable franchises like Dairy Queen, and Tastee Freeze. From this experience he concluded that the way for the corporation to make money was to ensure that the franchisees made money. Widespread practice at the time was to charge considerable franchising fees, sell territory rights, and require store operators to purchase equipment and supplies from the corporation at crippling high margins. This caused many franchisees to cut corners in order to earn a profit, which hurt the reputation of other franchisees. Kroc saw this as detrimental to the corporation overall and became legendary for ensuring that every McDonald's store conformed to the corporate tradition. He believed that lack of orthodoxy would not only damage the brand image but suffer inefficiencies as well. He created standardized menus, foolproof production processes, common suppliers, consistent training, unwavering cleanliness directives, and required a minimum advertising budgets to ensure the longevity of both the corporation and the store owner. McDonald's corporation provided a business model to the entrepreneur and in return earned royalties based upon the success of that formula. Kroc opened his first store in 1955 in suburban Chicago and in 1961 bought the company for \$2.7 million dollars. In 1985 when McDonald's made their initial public stock offering his share was valued at \$32 million.

Marketing^{4, 5}

Although teenagers were the primary customers of early McDonald's, Kroc's objective was to target the larger, more profitable family market. Many promotions such as Happy Meals were aimed at children so that they would appeal to their parents to go to McDonalds. Newspaper ads featuring Rockwellesque paintings were provided by McDonald's Corporation to franchisees for use in their local media. The yellow pages and newspaper ads were the most common advertising medium in the 1950's, however; they were not effective at reaching kids. Ronald McDonald was created and broadcast during children's shows when spots were cheaper. It flew in the face of convention during a time when television advertising was never used by restaurants, but sales grew 30%. By 1985 McDonald's had the largest and most powerful promotional budget of any brand.

The company was also considered a pioneer for advertising during the first Super Bowl. Devoting heavy expenditures to television advertising at Super Bowls was unproven and reasonably inexpensive at first. In 1967, it was estimated that 60 million viewers tuned in to the championship game and advertising ran about \$80,000 for a 60 second spot. Super Bowl ads have since become a phenomenon and McDonald's 1993 super bowl ad called "The Showdown", between Michael Jordan and Larry Bird, is today regarded as the number 6 top Super Bowl ad of all time.

Standardization⁴

One of McDonald's greatest concepts has been their strict adherence to operating standards. Known as QSC & V the acronym stands for quality, service, cleanliness, and value. Because of standardization, customers were certain of the experience they would receive no matter which location they patronized. A Big Mac was the same in downtown Chicago as off the interstate in California. Quality was reliable. Service was always fast and courteous. Stores and restrooms were clean at every location. Uniformity allowed for greater cost control through larger economies of scale which then passed savings on to the customer. Value is also maintained through price controls. Customers paid the same amount in each store they visited. QSC & V are consistent company-wide to protect the brand image, so that no single franchisee would damage the reputation of another market.

Supplier Relationships⁴

A key component to cost control has been supplier relationships. McDonald's has traditionally maintained very strong relationships with a small handful of suppliers. Each supplier's process is scrutinized for compliance to the company's standardized procedures. For example, each burger must weigh the same and have exactly identical proportions of beef and fat to facilitate the automated cooking process. Unique clamshell style griddles were developed to cook both sides at once and create a perfectly cooked burger in as little time as possible. A non-standard burger would either be under or overcooked. The process is designed to be foolproof by eliminating variation. The supplier with proven process control was rewarded with the exclusive business of McDonald's whose volumes almost guaranteed them profits.

As a result, suppliers willingly shared their expertise with the company. Suppliers created unique process designs knowing their effort would be used exclusively by the company. They were confident their loyalty would be rewarded. The exclusive nature of the supplier relationship fostered a partnering of ideas. For example, the challenge of producing a consistent french fry was solved by a supplier. McDonald's had experimented with various temperatures and cooking times but still experienced unpredictable results. Inconsistency in the potato supply chain complicated matters. The pioneering supplier found a potato which could be obtained year round and environmentally controlled the storage process to regulate the conversion of starch into sugar.

Although it was a franchisee who thought of the Filet of Fish, it was their supplier who made the actual filets a success. Originally, filets were sliced, battered, and fried by hand in each restaurant. Availability issues lead to the use of various types of fish and filet patties were not necessarily uniform. The filleting process was too lengthy and varied to replicate in the necessary mass volumes. It was the supplier who was able to obtain the significant volumes of a single type fish, and developed the process to repeatedly create a consistent filet size and shape

suitable for standardized cooking at all restaurant locations. As a result company store managers were able to outsource much of the labor to suppliers.

Menu^{4, 6, 7}

The menu was one of the most tightly controlled aspects of the business. Too many menu variations caused disruptions in the supply chain, inconsistent quality, expenses due to inefficiencies, and uncertainty in the minds of the consumer. Pricing was strictly restrained in order to manage demand and maintain fairness between franchisees. Exhibit 1 details major developments over the years.

Global Expansion^{4, 8, 9}

In order to continue their high growth levels, McDonald's took their recipe for success to other countries. To enter new markets McDonald's utilized the formula which had proven so successful over the years. The strategy in entering foreign markets was "one world, one taste". They stuck to the standardized formula which was the bedrock of their success. The goal was to offer American food at a reasonable price. "One world, one taste" was reinforced by the decision to begin expansion with English speaking countries that were more accepting of America. American businessmen and tourists frequented company restaurants for a familiar taste of home while overseas. The company was selling American culture.

McDonald's top management believed "If we incorporate their food we lose our identity" but the company underestimated the impact of their restaurants on the cultures of the host countries. This made the company vulnerable to much resentment. The original 'American' appeal eventually wore off and concerns grew regarding fatty diets. Scares over mad cow disease and a growing anti-American sentiment strengthened the negative image of McDonald's as a global oppressor. Attacks and protests directed at the company increased.

Additionally, there were operational problems with executing this standardized approach. The company was growing faster than the infrastructure necessary to support the restaurants. Careful scrutiny and supervision had been the key to success, but many overseas operations were joint ventures and were difficult to supervise. Foreign operations often didn't have qualified suppliers necessary to ensure standardization. As a result, overseas locations were less profitable on average than their domestic counterparts.

Broadening Global Appeal^{4, 10, 11, 12, 13, 14, 15}

In 2003, management adopted a strategy called "Plan to Win", which shifted emphasis from growing the number of stores to improvement within existing locations. Rather than promoting what American customers expected, McDonald's attempted to become more relevant to local and regional preferences.

To begin with, the company started employing more local suppliers. McDonald's incentivized local suppliers to upgrade their operations, and some US suppliers built plants overseas to serve stores in foreign markets. Regional distribution centers were set up that allowed the supply of indigenous foods to multiple stores within a region and supported broader, more customized menus.

The company encouraged regional experimentation with the menu to align with local tastes. When McDonald's experienced successes with a menu item in one region it would then try to leverage that experience in other regions. One example of this was *McCafe* – an upscale coffee concept that actually originated in Germany, which eventually was instrumental to the turnaround of US stores. Another was the P'tit Plaisir, a line of mini-size snack foods developed in France, is now served in 12 different countries.

The company also took purposeful actions aimed at becoming a valued member of its local communities. For example, McDonald's in France hosted an open door community event after one of their stores was destroyed by a protestor. Now this policy has been practiced in other countries where customers can go on tours of the kitchen and meet executives and suppliers.

Finally, stores were redesigned to be more modern, comfortable and amenable to overseas expectations. The new fast food idea was to encourage patrons to linger and relax, a destination, not just a drive-thru. Ambiance and comfort were improved with upholstered vinyl chairs, tables of various size and shape, subdued lighting and décor appropriate to local customs. Individual franchisees have created some very unique designs. Outlets and free WiFi for customers to work on laptops while eating also were added.

Multi-domestic Strategies

Skinner felt the company needed to become more connected to a global customer base. Over time this resulted in significant variance in strategic actions in different countries. The examples that follow highlight key variations in country-level strategy.

France^{16, 17, 18, 19, 20, 21}

In France, McDonald's was fondly referred to as McDo, pronounced McDough. Recently, it became McDonald's 2nd most profitable market in the world after the brand re-imaging. As mentioned earlier, McDonald's was not always well received in France. It was the focus of protests, sometimes resulting in violence. The company's French leadership redesigned the brand so it would not be seen as subverting the French culture of high cuisine, but instead as a French company. The company touts, "Yes, we were born in the USA, but we are made in France." McDonald's now features premium ingredients, 75% local sources, eco friendly stores, and nutrition content significantly better than the country's traditional choices featuring high fat cheeses and potatoes soaked in duck fat. McDonald's was also an active participant in the premier agricultural show Salon de l'Agriculture, which features premium local sourced foods.

The new menu in France offered many choices not familiar in the US, such as: the P'tit Plaisir (mini snack foods), Le Royal Deluxe (burger with whole grain mustard sauce), Croques Monsieurs (grilled ham and cheese), and Jambon Beurre (ham and butter on a crusty baguette). In addition, stand alone *McCafes* carried traditional French sweets such as macaroons, fruit tarts, and flan, and served beverages in ceramic mugs.

Although 70% of Americans traditionally order food to go, dining is a particularly social event in France. People are likely to come in groups and spend more money, but expect to dine in, linger, and have at least 2 courses. McDonald's prospered in France by positioning the restaurants as primarily take out, offering quality options without the time commitment. This had a direct cost benefit to the consumer. Traditional restaurants were taxed at a rate of 19.6%, while McDonald's was required only to tax patrons at 5.5%. This made inexpensive food even more reasonable in a sluggish economy where unemployment was high. McDonald's popularity grew as few conventional choices were child friendly, quick, or served full meals at off peak hours.

Germany^{22, 23, 24, 25}

Early McDonald's restaurants were located on property owned by German brewers in order to facilitate the selling of local beers. This feature attracted a bar crowd which deterred the families McDonald's targeted. Local management understood the German market to be very price sensitive so their response was to increase beer prices and develop a coffee bar. This later evolved into the *McCafe* which has taken market share from Starbucks globally.

With the recent addition of more locations, McDonald's has become the most popular restaurant brand to Germans aged 12-18. This was due in part to their commercials starring Heidi Klum, a native German supermodel. Her ads combated the obesity image associated with McDonald's. In addition, stores were decorated with simplicity and focused on the essentials typical of German design. Most stores featured televisions tuned to the McDonald's German Network, a very popular in-store television network. It carried branding, entertainment, leisure content and advertising.

Germany is considered to be one of the most environmentally conscious countries in the world. Sensitive to this, a typical German McDonald's store converted used oil into biodiesel fuel, bought solar powered air conditioners, and refrigerators that operated without harmful chlorofluorocarbons. McDonald's also developed a prototype store which used even 25% less energy. Staff patrolled the grounds for garbage and displayed anti-litter slogans on trash cans. To reduce waste, wrappers were made from 72% recycled paper while other disposables such as tray liners, napkins, and toilet paper were made from 100% recycled content. They redesigned the lid of the *McFlurry* to save, of all things, hedgehogs. Apparently hedgehogs have a sweet tooth and would stick their head in the hole on the lid of a discarded *McFlurry* and often not be able to pull it back out. This sometimes resulted in the animal starving to death (see photo exhibit 2). The new lid with a smaller hole prevented the hedgehog from sticking their head inside.

McDonald's has also improved its local sourcing. In response to government pressure, McDonald's started adding locally grown organic beef to their patties.

McDonald's marketing executives also identified a German fascination with Mexican culture and a love of their spicy foods. McDonald's Germany added Los Scharfos (fried cottage cheese and jalapeno snack), El Pikanted (beef patty, pita, & picante sauce) and a big bacon burger topped with jalapenos. The popular Mexican food items were tied to a promotion which used Facebook and Youtube to enter a sweepstakes.

Russia^{26, 27, 28, 29, 30 31}

After 14 years of negotiations, which began at a meeting during the Canadian Olympics, McDonald's was allowed to enter the Soviet Union market. Even though it was a very challenging economy which caused many other international businesses to leave, McDonald's did not retreat. Because there were few individuals with the resources to become franchisees, one of the keys to McDonald's early success was participating in a 51% joint venture with the Moscow City Council.

Historically, most Russians found it difficult to leave the country so patronizing an American company in Russia had the allure of a cheap and easy visit to the USA. McDonald's was attractive since consumers were accustomed to poor service, often standing in line for hours for food at other vendors. Fast food had very little competition because restaurants for the average citizen were rare. Most traditional restaurants were very fancy and targeted the exclusively rich. Remarkably, the fast food diet was not an issue either. Due to basic food scarcity, McDonald's instead got complaints that the fat content in the mayonnaise was not high enough. The menu in Russia was augmented with simple foods unique to local tastes such as cabbage pie and kvass (alcohol from fermented brown bread).

The average family income level in the Soviet Union also worked in McDonald's favor. While McDonald's sometimes was criticized in the US for low wages, Russians were very happy with McDonald's jobs. Each new store opening created approximately one hundred new jobs. Most families were poor and very few owned cars, so McDonald's didn't need drive up windows. Store owners alternatively developed walk up windows.

In Russia there was little infrastructure and few suppliers. McDonald's out of necessity chose to build their *McComplex* food processing facility while developing a domestic supplier network. When they started in Russia, the state of affairs was in such infancy that, for instance, there wasn't machinery available to mass harvest potatoes in the necessary volumes. Additionally, health and safety standards lagged. After significant contributions to the food service, processing, agriculture, and business industries, today eighty percent of supplies are sourced domestically. It is estimated that the McDonald's supply chain network alone created over one hundred thousand new jobs.

Currency management was another new challenge to which McDonald's had to adapt. Rubles were not always easily convertible, but McDonald's stores only accepted Rubles, the local currency, to make it easy for the local public to spend their money. Because of the difficulty in converting the rubles back to dollars and the difficulty obtaining loans, McDonald's strategy was to buy local real estate to spend the rubles, then charge rent from those properties and collect in hard currency. This gave the company currencies to import the supplies they couldn't source locally. The strategy has paid off. McDonald's early real estate investments have appreciated at about 40% and consequently land is now almost impossible to acquire today. As competitors attempted to enter the market, they were faced with exorbitant rents.

China^{32, 33, 34, 35}

The Chinese market was also challenging for McDonald's in terms of real estate. McDonald's US site selection was calculated down to a science and emphasized the suburbs because that is where most American families spend their time. Generally speaking, China's inner cities were less deteriorated than US inner cities, and McDonald's found them to be their primary target markets. They also decided that the best way to expand was to build groups of stores simultaneously, thereby achieving economies of scale in construction, sourcing, training and distribution. They also secured locations in growing areas that would become prime real estate in the future. Similar to their experience in Russia, they were taking a risk to buy low and have that presence when property prices start to appreciate.

Contrary to Russia, China was experiencing tremendous economic growth and consequently more and more Chinese were driving cars. New drivers seemed to enjoy driving everywhere possible. McDonald's was the first fast food provider to offer a drive up lane in China, and the concept proved very popular. Trying to further take advantage of the growing car ownership in China, McDonald's closed a deal with the Chinese state owned oil company allowing the company to open stores at their gas stations.

The Chinese tended to not dine out nearly as often as Americans. In China, McDonald's was expensive to the average citizen. In China, McDonald's pricing was tiered by district relating to the affluence of the consumer. Maintaining affordability was crucial to succeeding. When they do dine out, they are typically not looking for their traditional cuisine, but something more novel. Going to McDonald's was an opportunity to experience the outside world that China was only recently open towards. It symbolized their reformation, a modern society with private industry and a growing economy separate from the state. The American experience offered by McDonald's was a popular dining choice; therefore the traditional Western style menu was still the basis of McDonald's Chinese menu. The Chinese menu did have some unique selections. In the Chinese culture, beef was associated with strength and energy, so China was home to the *Mega Mac* with four beef patties. The new quarter pounder in China had cucumbers instead of pickles. There were some more traditional Chinese choices on the menu that were inexpensive such as a corn cup, a pork sandwich, and seafood and vegetable soups.

During traditional festivals people tended to gravitate toward conventional Chinese restaurants. McDonald's hoped to reverse this tendency by celebrating Chinese national holidays as well. They decorated stores with cultural emblems of Fu (happiness), magpies, and twin fishes symbols, to recognize and show respect Chinese traditions and culture.

A big issue in China was food safety. McDonald's relied heavily on suppliers to minimize service time in the store, but safe food handling practices were not common. They held Chinese suppliers to the same high standards as US suppliers and frequently dropped in unannounced for inspections. McDonald's worked hard to establish local supply chain networks in order to be less vulnerable to restrictive governmental trade policies.

Australia^{22, 36, 37, 38, 39, 40, 41, 42,}

McDonald's in Australia was called Maccas. McDonald's emphasized premium Angus beef and has positioned itself as a high-end fast food outlet. The approach was "masstige", prestige for the masses, premium but affordable. The beef McDonald's used in Australia was 100% Angus meat and locally sourced. Two of the more popular sandwich choices were the grand Angus and the mighty Angus. Quality was important and

Australia had an internationally recognized livestock identification system which provided strong traceability and safety in terms of quality control. There has been such a strong interest in healthy menu choices in Australia that McDonald's have offered as many as sixteen products on their light choice menu- nine of which are approved by the heart foundation. Even the French fries in Australia have been altered to adapt to local regulations and do not contain wheat or milk.

Environmental concerns also have been very important in Australia. McDonald's efforts in this area included changing from foam to paper packaging, increasing the recycled content, waste recovery and composting. They encouraged suppliers to reduce their environmental impact as well. For example, all coffee is certified sustainable by the rainforest alliance. A McDonald's team is working with the marine stewardship council on fish-farming sustainability. Additionally, McDonald's has helped their carton board supplier work supportively with the forestry stewardship council.

The company has exhibited a strong commitment to employees in Australia. Casual employees have had the same 12 month parental leave as full-time employees. Wages were above the federal minimum. In 2001 McDonald's was voted the employer of choice for women, and they made the best companies to work for list in 2008.

Japan^{36, 43, 44, 45, 46,}

McDonald's has found the Japanese market to be challenging and dynamic. Their early marketing strategy emphasized the appeal of US style products. This approach was successful at

first, but has experienced difficulties more recently. McDonald's initially used a low price strategy and that was not well received in Japan. Although the market was very price sensitive, it was also susceptible to fashion and trends. In response, promotions have been used to attract and hold the interest of the younger generation. For example, various mega burgers have been offered for a limited time only. The company also used a creative and bold strategy to tout the future release of a "top secret" sandwich. A select few high-profile stores were temporarily closed and re-opened with the top secret burger – the Big Mac, which was not available at other McDonald's in Japan. One of the few items unique to Japan which has consistently remained on the menu is the teriyaki burger.

The company views the youth market segment as the target with the highest profit potential and competes directly with Japanese convenience stores. The company has now been emphasizing coffee sales to leverage its large pricing advantage over Starbucks and appeal to price sensitive consumers.

One of their keys to future growth is to eliminate the competition by converting convenience store locations into McDonald's restaurants. Locations they have targeted include train stations and other busy sites where heavy traffic occurs throughout all hours of the day.

Because of relatively fewer natural resources, the Japanese have not required local sourcing as much as other countries such as France. Superior imports are considered acceptable.

McDonald's reaction was to form key partnerships in order to create viable supply chains. For example, beef is not domestically produced but comes from Australia.

India^{47, 48}

India was the world's most populous democracy and was the third largest economy in Asia, just behind both China and Japan. Given this, it was no surprise that McDonald's was one of the earliest American fast food chains to enter the Indian market. The first restaurant was established in New Delhi in 1996. McDonald's franchises, while not as widespread as in other parts of Asia and the Pacific Rim, were now found in many parts of India. In June of 2009, the company announced expansion plans for forty new restaurants across India increasing the total number of locations to over two hundred for the country. The current franchise growth rate was higher in India than any other Asian country. Entry was typically accomplished through the use of joint ventures with Indian firms.

Initially McDonald's experienced difficulty in India due to environmentalists and animal welfare activists. Religious and anti-western sentiment also presented challenges to the company. Over forty percent of the Indian population was vegetarian. Out of respect for the local religion and culture, McDonald's served no beef or pork products in India. Instead, McDonald's developed a special line of vegetable, fish, and chicken sandwiches. The company developed both vegetarian and non-vegetarian menus with separate kitchens and service crews. McDonald's also offered kitchen and restaurant tours to assure customers the staffs were separate.

Seventy-five per cent of the McDonald's menu was localized for India. This represented a much larger portion of the total menu than for other Asian countries. The *Chicken Maharaja Mac*, two grilled chicken patties with smoke-flavored mayonnaise, cheddar cheese and vegetables, became one of the most successful choices on the localized menu. The popularity of the chicken nuggets and sandwiches caused some restaurants to run out of supplies. The high demand for this sandwich led the company to also offer it in a lamb version.

McDonald's continued to reach out to local communities to improve its image. It engaged in partnerships with Indian communities to support schools, gardens and parks. The company also made donations to the Bhuj, Gujarat, and Latur earthquake relief efforts.

Brazil ^{49, 50, 51}

McDonald's in Brazil was the most popular fast-food restaurant in a country that seemed to love fast food. At first, growth proceeded quickly and franchises were often opened in the backyard of existing outlets, sometimes causing franchisees to sue the company. The owners' concerns were cannibalization of existing stores sales and growing without consideration of the areas served by current locations. Some Brazilian store owners also complained about the extremely high rents charged by the company.

Over time McDonald's developed several social initiatives to improve their image and to better fit the Brazilian environment. One was the McHappy Day (McDia Feliz) partnership, with the Ronald McDonald Institute, that raised approximately thirty-eight million Brazilian Real (\$21 million) for the treatment of cancer in teenagers and children. Other community-oriented activities included training courses, clothing and book donations, and rehabilitation of green areas in Brazilian communities.

McDonald's eventually chose a strategy in Brazil that was somewhat unique for the company. In 2007, McDonald's sold its businesses in Brazil and thirteen other Latin American countries, totaling almost 1600 restaurants, to a licensee organization. This arrangement allowed the company to receive royalties in Brazil rather than operating sales and rents. The licensee group has agreed to pay monthly royalties at a rate of 5% of gross sales as well as grow the business by paying fees for opening new restaurants and by committing funds to improve existing ones. McDonald's has a twenty-year royalty and fee agreement with the licensee group.

Current Situation

As the company grew, the magnitude of its impact on national and world culture became increasingly significant. The presence of the Golden Arches was often seen as evidence of American hegemony. It became the quintessential example of efficiency, standardization, and bureaucracy.

Because of its size and influence, McDonald's received more than its share of public attention—both good and bad. The company had high brand exposure, a large dependence on natural resources, and a large environmental impact. McDonald's operations required a significant

amount of packaging materials and it was no secret that McDonald's generated a great strain on the infrastructure everywhere it operated. McDonald's began to experience increasingly frequent incidents of violence and vandalism because they were a symbol of western culture. As a result, one effort to combat this international backlash was a series of socially responsible activities undertaken.

Corporate Responsibility^{52, 53, 54}

Kathleen Bannan, senior management of corporate social responsibility, emphasized six general areas in terms of corporate responsibility, namely; community, employment experience, environmental responsibility, governance and ethics, nutrition and well-being, and sustainable supply chain. Bannan implemented a strategy that allowed the company to consider more social and environmental issues in the areas where they did business. As part of this strategy the company identified a set of key performance indicators centered on sustainability concepts. For example, in the supply-chain area, the company charted the worldwide percentage of firms that affirm the Code of Conduct created for McDonald's suppliers. They also set goals and standards in the areas of animal welfare and packaging. In terms of employment, the firm charted employee development, internal promotions, and advancement opportunities for women. In addition, community philanthropic activities and in-restaurant nutritional information were supported worldwide. The firm tracked improvement relative to the above stated goals areas on an annual basis.

McDonald's also entered into several productive relationships with nongovernmental organizations (NGOs). The company worked actively with NGOs in an attempt to improve and better track the effects of its operations on both suppliers and customers. Packaging was a huge environmental issue, and in Europe for example, in conjunction with Environmental Defense, the company developed an alternative to polystyrene packaging called the 'clamshell' - a cardboard container that keeps the food warm but was not as environmentally harmful as polystyrene.

The large industrial cattle operations needed to supply the company had a large environmental footprint. McDonald's worked with NGOs and suppliers to better understand their impacts on water pollution, waste management and soil erosion of large livestock operations. As part of this collaboration, the company engaged in pilot projects with beef suppliers in an attempt to establish sustainability goals and metrics. The result was improved environmental practices that in turn provided both defense against criticism and support of the company brand. McDonald's has been requiring beef suppliers to document that their cattle do not have mad cow disease and it has been asking chicken suppliers to reduce antibiotic use.

Through a process called 'anticipatory issues management' the company identified a potential problem. The batteries included in some Happy Meals contained mercury. The batteries never became a big public relations problem for McDonald's because they employed 'anticipatory

issues management,' the company proactively identified the risk and eliminated all mercury batteries from Happy Meal toys.

Together with Unilever and Coca Cola companies, and the United National Environment Program and Greenpeace, McDonald's created a natural refrigerant program that explored alternatives to using ozone-depleting chemicals. This program called "refrigerants naturally" won an Environmental Protection Agency award in 2005.

In 2009 the company developed an interactive software program named EcoProgress that enabled restaurants to reduce energy consumption by up to 11%. McDonald's also pioneered improvements in water management through their storm-water retention tank program. The goals of this program were to save on water use not only in the restaurants, but in communities as well. Additionally, McDonald's started programs for transforming their used oil into biodiesel fuels and built electric vehicle charging stations at restaurants in certain locations. They also partnered with the Japanese government to offer discounts to citizens who registered to participate in CO² emission reduction programs.

Conclusion

As Skinner reflected on the past and how McDonald's had systematically used its standardized business practices to create a consistent customer experience he realized how this classic strategy allowed the company to become the largest fast food restaurant in the world. But the old McDonald's existed in a stable world that changed very slowly. CEO Skinner now felt like his world was changing daily. McDonald's current multi-domestic strategy, which included unique and customized approaches to each country, allowed it to respond more quickly to this dynamic environment. New socially responsible initiatives would help ensure the company's good name abroad. Still Skinner knew he was going to have to continually rethink his strategy for company growth. The big question was- what is our next move going to be? These were indeed challenging times and would require continual efforts to rebuild the global brand of McDonald's.

Year	US Menu Change	Status	Comments
1948	Menu reduced to support drive thru	Repeatedly	
1949	French fries replace potato chips	Current	
1949	Shakes	Current	
1963	Hula Burger	Flop	Catholic abstinence on Friday
1964	Filet O Fish	Current	Catholic abstinence on Friday
1968	Big Mac	Current	
1973	Quarter Pounder & Quarter Pounder w/ Cheese	Current	
1975	Egg McMuffin	Current	
1979	Happy Meals	Current	
1980	Chicken McNuggets	Current	
1981	McRib	Off/On	Barbeque sauce. 1981, 1994, 2005 Farewell tours 2006, 2007 2008
1985	McDLT	Flop	Hot burger, separate cool tomato and lettuce, too expensive.
1987	Salads	Revised?	
1989	McPizza, Lasagna, Spaghetti	Flop	Attempt for supper. Took too long.
1991	Big N Tasty Sandwich (revamped McDLT)	Current	
1991	McLean Deluxe	Flop	91% fat free. Attempt to "lean" menu. Dry.
1992	McJordan	Flop	Bacon and barbeque sauce. Attempt towards adult tastes. Too distant from McFamily tradition.
1996	Arch Deluxe	Flop	Massive famine in Africa considered insensitive campaign.
2002	McAfrica	Flop	
2003	Premium Salads	Current	
2003	Dollar Menu	Current	Key sales driver. Brings unprofitable traffic.
2004	Phase out supersize	Current	Simplify menu. Support balanced choices.
2006	Snack Wrap	Current	
2009	McCafe	Current	

Exhibit 2



Exhibit 3

International Expansion Timeline^{55, 56}

Year	Markets Entered
1967	Canada, Puerto Rico
1970	Virgin Isles, Costa Rica
1971	Guam, Japan, Netherlands, Panama, Germany, Australia
1972	France, El Salvador
1973	Sweden
1974	Guatemala, England
1975	Hong Kong, Bahamas
1976	New Zealand, Switzerland
1977	Ireland, Austria
1978	Belgium
1979	Brazil, Singapore
1981	Spain, Denmark, Philippines
1982	Malaysia
1983	Norway
1984	Andorra, Wales, Finland
1985	Thailand, Aruba, Luxembourg, Venezuela, Italy, Mexico
1986	Cuba, Turkey, Argentina
1987	Macau, Scotland
1988	Serbia, South Korea, Hungary
1990	Soviet Union, China, Chile
1991	Indonesia, Portugal, Greece, Uruguay, Martinique
1992	Czechoslovakia, Guadeloupe, Poland, Monaco, Brunei, Morocco
1993	Marianas, Iceland, Slovenia, Saudi Arabia
1994	Botswana, Kuwait, New Caledonia, Oman, Egypt, Bulgaria, Bahrain, Latvia, United Arab Emirates
1995	Estonia, Romania, Malta, Columbia, Slovakia, South Africa, Qatar, Honduras, Saint Martin
1996	Croatia, Samoa, Fiji Islands, Liechtenstein, Lithuania, Cyprus, India, Peru, Jordan, Paraguay, Dominican Republic, French Polynesia, Belarus
1997	Ukraine, Yemen, Republic of Macedonia, Ecuador, Reunion, Isle of Man, Suriname
1998	Moldova, Nicaragua, Lebanon, Pakistan, Sri Lanka
1999	Georgia, San Marino, Gibraltar, Azerbaijan
2000	French Guiana
2001	Mauritius
2003	Kazakhstan, Mayotte
2004	Montenegro
2006	Algeria, Kenya, Iraq

Exhibit 4 ⁵⁷

Income Statement

Revenue <i>values in millions</i>	2009	2008	2007	2006	2005	2004
US	7943.8	8078.3	7905.5	7464.1	6955.1	6525.6
Europe	9273.8	9922.9	8926.2	7637.7	7071.8	6736.3
APMEA	4337	4230.8	3598.9	3053.5	2815.8	2721.3
Other Countries & Corporate	1190.1	1290.4	2356	2739.9	2274.6	2610.8
Total Revenue	22744.7	23522.4	22786.6	20895.2	19117.3	18594
Cost of Revenue	13952.9	14883.2	14881.4	13963.2	12940	12690.6
Gross Profit	8791.8	8639.2	7905.2	6932	6177.3	5903.4
Selling & Administrative Expenses	2234.2	2355.5	2367	2295.7	2118.4	1939.1
Impairment and Other Charges	-61.1	6	1670.3	134.2	-28.4	281.4
Other Operating Expenses	-222.3	-165.2	-11.1	69.1	103.3	145
Operating Income	6841	6442.9	3879	4433	3984	3537.9
Interest Income (Expense)	473.2	522.6	410.1	401.9	356.2	358.4
Gain (Loss) on Sale of Assets	-94.9	-160.1	0	0	0	0
Other, Net	-24.3	-77.6	-103.2	-123.3	-32.4	-21.2
Income Before Taxes	6487	6158	3572.1	4154.4	3660.2	3200.7
Income Tax	1936	1844.8	1237.1	1288.3	1082.6	923.2
Income After Tax	4551	4313.2	2335	2866.1	2577.6	2277.5
Total Extraordinary Items	0	0	60.1	678.1	24.6	1
Net Income	4551	4313.2	2395.1	3544.2	2602.2	2278.5

Balance Sheet

<i>values in millions</i>	2009	2008	2007	2006	2005	2004
Assets						
Cash and Short Term Investments	1796	2063.4	1981.3	2128.1	4260.6	1379.8
Total Receivables, Net	1060.4	931.2	1053.8	806.9	793.9	745.5
Total Inventory	106.2	111.5	125.3	112.4	144.3	147.5
Prepaid Expenses	453.7	411.5	421.5	318.6	640.2	585
Other Current Assets, Total	0	0	0	1826.2	380	0
Total Current Assets	3416.3	3517.6	3581.9	5192.2	6219	2857.8
Property, Plant, Equipment Total - Net	21531.5	20254.5	20984.7	19438.1	19573.3	20703.1
Goodwill, Net	2425.2	2237.4	2301.3	2073.6	1924.4	1828.3
Intangibles, Net	0	0	0	0	0	0
Long Term Investments	1212.7	1222.3	1156.4	1035.4	1035.4	1109.9
Note Receivable - Long Term	0	0	0	0	0	0
Other Long Term Assets, Total	1639.2	1229.7	1367.4	1235.2	1236.7	1338.4
Other Assets, Total	0	0	0	0	0	0
Total Assets	30224.9	28461.5	29391.7	28974.5	29988.8	27837.5
Liabilities and Shareholder's Equity						
Accounts Payable	636	620.4	624.1	668.7	678	714.3
Payable Accrued	0	0	0	0	0	0
Accrued Expenses	1854.8	1633	1635.3	1459.5	1316.6	1367.6
Notes Payable/Short Term Debt	0	0	1126.6	0	544	0
Current Portion of LT Debt/Capital Leases	18.1	31.8	864.5	17.7	658.5	862.2
Other Current Liabilities, Total	479.8	252.7	248	805.7	910.6	576.4
Total Current Liabilities	2988.7	2537.9	4498.5	2951.6	4107.7	3520.5
Total Long Term Debt	10560.3	10186	7310	8389.9	8934.3	8357.3
Deferred Income Tax	1278.9	944.9	960.9	1076.3	949.2	781.5
Minority Interest	0	0	0	0	0	0
Other Liabilities, Total	1363.1	1410.1	1342.5	1098.4	851.5	976.7
Total Liabilities, Total	16191	15078.9	14111.9	13516.2	14842.7	13636
Redeemable Preferred Stock	0	0	0	0	0	0
Preferred Stock - Non Redeemable, Net	0	0	0	0	0	0
Common Stock	16.6	16.6	16.6	16.6	16.6	16.6
Additional Paid-In Capital	4853.9	4600.2	4226.7	3445	2720.2	2186
Retained Earnings (Accumulated Deficit)	31270.8	28953.9	26461.5	25845.6	23516	21755.8
Treasury Stock - Common	-	-	-	-	-	-
Treasury Stock - Common	22854.8	20289.4	16762.4	13552.2	10373.6	-9578.1
ESOP Debt Guarantee	-134.6	0	0	0	0	-82.8

Other Equity, Total	882	101.3	1337.4	-296.7	-733.1	-96
Total Equity	14033.9	13382.6	15279.8	15458.3	15146.1	14201.5
Total Liabilities & Shareholders' Equity	30224.9	28461.5	29391.7	28974.5	29988.8	27837.5
Total Common Shares Outstanding	1076.7	1115.3	1165.3	1203.7	1263.2	1269.9
Total Preferred Shares Outstanding	0	0	0	0	0	0

Exhibit 5

58



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